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## NATIONAL POLICY AND ISSUES

### GROWTH OF SOCIALIST ECONOMY SHOWS 'SUPERIORITY OF SYSTEM'

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 1981 pp 30-38

[Article by Wang Xiangming [3769 0686 2494] and Dong Fureng [5516 6534 4356]]

[Text] The speed of economic growth is an important measure used to assess different social economic systems. The problems which call for serious study are whether the socialist economy actually grows faster than capitalism, the speed of our own economic growth since the founding of the People's Republic and the way to achieve sustained high-speed growth of the economy.

#### 1. Actual Practice Attests that Socialism Grows at a Higher Speed Than Capitalism.

The superiority of a socialist economy marked by its high speed of growth has been borne out not only by theoretical analysis but also by the experience of the world's socialist countries. Take our own country for example. Since the founding of the People's Republic, although we did not spend enough time on construction due to the vicissitudes of our ups and downs, the overall speed of growth in the past 30 years is still greater than that of the capitalist countries.

First of all, the growth of the socialist new China compared with the semifeudalist and semicolonial old China has been exceedingly rapid. Under the Kuomintang, both industrial and agricultural production languished, the people lived in destitution, and economic growth was very slow and even declined at times. In 1949, the gross national industrial output value was no more than 10.8 billion yuan and that of agriculture 42.8 billion yuan. The fixed assets of industry as a whole were merely 12.8 billion yuan. In spite of recurrent setbacks and delays, we have laid a good material and technological foundation since the inception of new China. In 1979, the fixed industrial assets of the country reached 328 billion yuan, 25 times that of 1949. The gross national industrial output value climbed to 459.1 billion yuan, up 41.5 times. The agricultural gross output value was 158.4 billion yuan, up 2.7 times. The national income reached 337 billion yuan, up 7 times. The people's livelihood has become much better than before the liberation.

Compared with India where economic conditions are pretty close to ours, the speed of growth of our country is much faster. Take the overall speed of growth of both industry and agriculture for example. Statistics show that between 1950 and 1979, India's annual industrial production increased 5.9 percent, and her annual agricultural production increased 2.5 percent. In the same period, our annual industrial

production increased 13 percent and our annual agricultural production increased 4.5 percent. If we compare the output of principal industrial and agricultural products of the two, in 1949 India was a bit ahead of China in the output of electricity, coal, crude oil, steel and cotton yarn. But she fell behind us by 1979 in all these areas. The electricity she generated was 37 percent of ours, coal 16.9 percent of ours, crude oil 12 percent of ours, steel 29 percent of ours, and cotton yarn 47 percent of ours. The average annual increase of grain production in India was 2.8 percent while ours was 3.7 percent. In 1978 the per capita national income of India was \$180 while ours was \$208. According to Ramaswamy, an Indian economist, the top 10 percent of Indians live better than the Chinese, but the remaining 90 percent of the population are worse off than the Chinese. The data illustrates where the problem lies. The same is true of all other socialist countries besides ourselves. For instance, the annual increase of the gross national product or total social output between 1950's and 1970's was 6-10 percent in the socialist countries, but only 2-9 percent in the developed capitalist countries.

In summary, the high-speed growth of the socialist economy is an excellent indication of the superiority of the socialist economic system.

## 2. Objective Factors Accountable for the High-Speed Growth of the Socialist Economy

The speed of economic growth represents precisely the historical position of the formations of social economy. The economic growth of a capitalist society is faster than that of a feudal society, while the speed of economic growth of a socialist society is faster than that of a capitalist society. This represents the progress won by human society as changes took place in the social economic formation. Consequently, the speed of economic growth depends on the interplay of production relations and production force although it is related to many other areas and affected by many factors. The reason the socialist economy grows faster than the capitalist economy is that the socialist production relations founded on a socialist system of public ownership of the means of production are more conducive to the development of the productive force and provide objective conditions favorable to achieving rational organization and utilization of the component factors of the productive forces.

The socialist economic system liberates the working masses, the principal component of the productive force. As hired slaves, the working class in a capitalist society is kept away by the "ghost" of capital from associating itself with the means of production. Their enthusiasm, creativity and talents are smothered and they are denied the opportunity to develop fully. The socialist system of public ownership of the means of production makes the workers and other working people the owners of the means of production of the whole society and the master of the state. Having freed themselves from the shackles put on them by the capitalist system, they work for society and for themselves instead of anyone else. Their working enthusiasm and creative spirit thus brought into full play contribute effectively to the development of production, and this is impossible under capitalism. The comprehensive care the workers receive in a socialist society, such as education, technical training, medical and health protection, cultural and recreational facilities, helps the workers develop their skill fully. In the long run, this is a vital factor to sustain continued development of social productivity.

The socialist economic system works for rational use, improvement and development of production tools. We all know Marx analysis of the conditions under which machines are used in the capitalist system. A capitalist would use a machine when it costs

less than the laborer it replaces. If the machine is more expensive, the capitalist would rather use manual labor. This explains why even today when we are in the jet age there are still capitalists who use outmoded production tools to the detriment of the workers simply to earn more profit. These limitations faced by the capitalists simply do not exist under a socialist economic system where existing facilities are used and improved for the benefit of particular sectors as well as the overall consideration of economic efficiency as new production technology is used extensively to help increase labor productivity. From the standpoint of society as a whole, the use, improvement and innovation of production tools really agree with the law of economy of working time.

The socialist economic system has also done away with the impediments to the development of science and technology arising from the capitalist system of private ownership. Lenin predicted long ago: "It takes socialism to free science from the shackles of the capitalist class, enslavement by capital and servitude under the filthy capitalist private profiteering."<sup>1</sup> Under socialism, science is developed and utilized for the interests of the whole society. Science and technology are therefore the weapons which the workers use to conquer and transform nature and make social production grow according to scientific requirements.

Under the socialist economic system, natural resources of all kinds are used fully and rationally. In the capitalist society, due to the pursuit of profit by the capitalists and anarchical social conditions, the use of natural resources is often predatory in nature, leading to extreme waste. The socialist system of public ownership provides conditions best fitted for rational utilization of natural resources and rational programming of the productive force. For instance, systematic establishment of industrial and agricultural production bases will bring regional advantages into play and foster close coordination and cooperation of industry and agriculture. This will also lead to the development of remote localities and reduce regional differences. Communication and transportation facilities may be built to meet the need of natural resources exploration, production and provision of daily necessities so as to cut down wasteful shipments. Plans may also be worked out for the exploitation, utilization and production of natural resources and so on.

In a word, the socialist economic system is conducive to rational utilization and coordination of all the component factors of the productive force, especially rational organization of all the factors of the productive force of the whole society which is hard to match under capitalism.

Secondly, one of the basic characteristics of the socialist economic system is a planned economy. Under a planned economy, the total working time of the whole society is voluntarily adjusted and proportionately distributed by society as an entity. This insures coordinated development of all the departments and sectors of the national economy, unobstructed functioning of the reproduction operations, including production, exchange, distribution and consumption, and thereby eliminate the wanton wastefulness brought about by the anarchical state of production and recurrent economic crises inherent in the capitalist system. These of course favor high-speed growth of the socialist economy. Since this is discussed in the preceding chapter of the book, there is no need for repetition.

Finally, we have to take up the problem of accumulation under the socialist economic system. According to Engels' analysis, accumulation "is the most important function of social progress."<sup>2</sup> Since it is the principal source of sustaining expanded



reproduction, it is difficult to achieve expanded reproduction, and much less to secure the growth and progress of the social economy without accumulation. The size of accumulation and how to spend it under different systems of a social economy depend not only on the level of the developed productive force but also on the nature of the production relations in the particular social economy concerned. The function of progress of accumulation under the socialist system is more fully developed than under capitalism and differs in nature. The funds saved under the socialist system by eliminating the parasitic consumption of the exploiting class may be used to expand the accumulation and raise the consumption level of the working people. This contributes immensely to economic growth. Stalin said: "The elimination of the parasitic class leads to the disappearance of exploitation of man by man.... The income heretofore extorted from the people's labor by the exploiters are now kept in the hands of the workers."<sup>3</sup> Take the rural areas in our country for example. After the land reform, the peasants did not have to pay the exorbitant annual land rent to the landlords. In the past, a large part of this rent was spent lavishly by the landlords who did very little to expand production. After the land reform, the peasants who are now in possession of this wealth spend a portion of it to meet their consumption requirement and put the rest in accumulation under socialist public ownership. This helps eliminate unrestricted waste by society brought about by capitalist exploitation and the decadent lifestyle of the capitalists.

The aforesaid analysis of these three different areas explains why the socialist economy grows much faster than the capitalist economy. This is of course based on the nature and superiority of the socialist economy. If the superiority of the socialist economy could not be brought into full play due to political, ideological and actual errors or failure to act in accordance with the socialist economic law, the speed of economic growth will be affected.

It must be noted also that the high-speed growth of the socialist economy we have in mind is not a one-sided pursuit of high speed in some particular sectors or a few products without regard to the objective possibility and requirement, the objective of socialist production, or the ratio of growth and economic efficiency. Instead, it is a sustained stable high speed of growth actually attainable through coordinated development which is efficient and beneficial to the people.

Such high speed can be realized in the development of the socialist economy and only under the socialist economy would it be possible to realize it.

### 3. The Strategy and Speed of Economic Growth

As mentioned above, the high-speed growth of our economy since the founding of the People's Republic has been responsible for the success of the socialist economic construction. This means to a certain extent we have turned the possibility of high-speed growth provided by the socialist production relations into reality. But we should notice that we have not been able to bring into full play the objective factors which contribute to the high-speed growth mentioned above. There is still a big difference between the high speed we have achieved and the high speed that would help realize fully the superiority of the socialist economic system. For instance, there have been too many ups and downs in the speed of growth; stagnations, breaking offs and even declines of economic growth; severe disturbances of the ratios of the national economy and dislocation of industrial and agricultural production in a number of years due to one-sided pursuit of speed; incongruity between the speed of

production increase and the speed of the improvement of the people's consumption; signs of decline of the annual speed of growth caused by fluctuations; and the tremendous waste incurred for the sake of speed. These inadequacies demonstrate we have not yet brought into full play the objective possible speed of growth offered by the socialist economic system.

But what accounts for our failure to achieve sustained, stable, high-speed growth of the economy? The question of speed involves a wide range of factors. It is affected by economic as well as political factors, and factors rooted in the production relations and the superstructure, plus those which are subjectively avoidable but objectively unavoidable. The economic factors which affect speed are premature public ownership of the means of production, the change of the system of ownership not in keeping with the productive force, headlong adventurism, imperfections in the economic system, disruption of the socialist system of material interests and failure to carry out the system of distribution according to work. We believe there is another problem which bears heavily upon the speed of economic growth but has not yet attracted much attention it is the strategy of economic development which we have pursued since the founding of the People's Republic. It deserves careful consideration.

The strategy of economic development which we have had for a long time includes the following essentials: relying mainly on the construction funds accumulated within the country to develop the national economy by giving priority to the establishment and development of heavy industry; exporting a part of the agricultural produce, minerals and light industry products to trade for the means of production required to develop heavy industry; using the means of production produced by the preferentially developed heavy industry to equip and develop step by step agriculture, light industry and other industrial sectors and using the means of production manufactured within the country to substitute for imports; gradually establishing an integrated industrial and economic system and improving the livelihood of the people along with the development of heavy and light industry, agriculture and other industrial sectors.

The formation of this strategy of economic development is tied to our own social system, our historical background and the international situation confronting us and certain characteristics of our social economy. We are a socialist country. Sealed off for a long time by the imperialists after the liberation, we were unable to obtain from the developed countries enough advanced technology, equipment and construction funds. Consequently, we had to be independent and self-reliant and relying on our own resources to carry on the construction. We had to rely on our own accumulation to provide the funds for construction. Except in the early stage of the construction, all the technical equipment and supplies were mainly supplied domestically by the heavy industry we had built and developed. Our products were targeted principally for the domestic market while export was only secondary. We must establish an independent and integrated industrial system and national economy. The aforesaid strategy of economic development was designed to build our independent forces to prevent dependence on foreign capital, free ourselves from foreign economic control, to avoid a single track economy and dependence on foreign economy so as to escape the influence of international market fluctuations on our own economy. This would place our country in an invincible position in coping with unpredictable international crisis. As a big country abounding in natural resources and manpower, we can afford to adopt such a strategy of economic development. However, we must remember the problems we run into as we carry out this particular strategy of economic development. This is because there are difficulties in reconciling such a strategy of economic



development with the basic condition of our country. Undue emphasis on speedy development of heavy industry is the major mistake which diverted the strategy from the basic conditions of our country as it was executed. This has led to various unrewarding consequences, including the abnormal structure of our economy, serious dislocation of the ratios of the national economy and recurrent ups and downs in our economic growth. These in turn have obstructed sustained stable growth of our national economy at a high speed. Basically we are a large country with a huge population over 80 percent of which are peasants. Economically and culturally backward, the people's level of consumption is low and the national economy is dominated by agriculture. We run into practically insurmountable problems in four different areas when we try to reconcile the aforesaid strategy of economic development with the basic conditions of our country.

First, to make our economic development compatible with the basic conditions of our country, the top priority should be given to the development of agriculture and light industry, especially agriculture because this determines whether our economy will grow on a stable foundation and whether the enthusiasm of the people of the whole country, especially that of the peasants who constitute 80 percent of the population, can be brought into play for the construction. As we follow the strategy of economic development to develop the national economy by giving first priority to heavy industry, the problem of properly coordinating the development of heavy industry, agriculture and light industry without permitting the heavy industry to encroach upon the development of agriculture and light industry is very difficult to resolve but it must be resolved. Take the funds needed for construction for example. When we develop our economy through the development of heavy industry, the problem we run into is the source of funds. We all know heavy industry is costly, and the heavy industry being constructed is not able to provide itself with enough funds within a short period of time. Thus, the funds needed by the heavy industry will have to come from agriculture and light industry (the funds provided by light industry is derived from agriculture through pricing). The pursuit of excessive high-speed development of heavy industry will put too much pressure on agriculture, leading to an intensification or even dislocation of the relationship between agriculture, light industry and heavy industry. The proper solution to this problem is to work gradually and step by step instead of hastily for the construction and development of heavy industry. Right from the start, the development of heavy industry should be geared to the needs of agriculture, light industry and other sectors of industry rather than the exclusive needs of the heavy industry itself. There should be plans right from the beginning to structure the heavy industrial products to meet the needs of the domestic market and for export. When heavy industry expands, its products may be exported as trade for a part of the means of production required to develop heavy industry, light industry and agriculture and finally make the heavy industry self-supporting. In actual practice, we have been over anxious all these years to achieve industrialization and modernization and speedy development of heavy industry without considering the basic conditions of our country. Our failure to heed these factors is responsible for our grotesque economic structure and serious dislocation of proportions. Retrospectively speaking, we should have revised our strategy of economic development the moment we built a primary base of heavy industry so as to synchronize the speed of growth of agriculture, light industry and heavy industry. Had we done that, we would have achieved a well coordinated economy which grows evenly and steadily at a high speed without running into serious problems.



Second, being a socialist country with its people living in poverty just before the liberation, if the development of our economy helps improve step by step the livelihood of the people, especially that of the poor peasants who constitute over 80 percent of the population determines whether our economy can develop successfully and whether we can achieve political stability and unity. How to make the development of production and construction conducive, to instead of hindering, the improvement of the people's livelihood as we execute the economic development strategy by developing our national economy through preferential development of heavy industry is another problem very difficult to resolve and yet it must be resolved properly. This is because the execution of this strategy of development requires long-term commitment of huge sums of accumulated capital to the construction of heavy industry which cannot be recouped within a short time. This naturally works against raising the consumption level of the people. A proper way to tackle this problem is to coordinate the development of heavy industry, agriculture and light industry and make the scale and pace of capital construction reasonable and gradual rather than large and hasty. There must be proper ratios of distributing capital construction investments, especially the ratios of investment in heavy and light industry and agriculture, as well as that between productive and nonproductive construction (especially those nonproductive construction projects closely related to the people's livelihood). Avoid investing too heavily in heavy industry and productive construction. The ratio of using the national income for accumulation and consumption should be reasonable and avoid an excessively high ratio of accumulation. When conditions permit, we may borrow or attract foreign capital to cushion the contradiction between capital accumulation and consumption so as to provide a proper solution to the relationship between productive construction and the improvement of the people's livelihood. The fact that we often ran counter to these needs in actual practice has delayed for a long time the improvement of the people livelihood, especially the peasants, along with the development of the productive constructions.

Third, one of the very important basic conditions of our country is its large population. The crucial problem is to find a way to make full use of the abundant resource of the labor force and see to it that it is fully employed. This would be especially helpful to peasants in over-populated areas who face potential unemployment and to seek to switch to employment in industry and other enterprises. Another tough problem calling for proper solution is how to coordinate the development of those enterprises which require concentration of capital and those which require concentration of labor so that the development of the former would not hinder the development of the latter. Judging by the actual conditions of our country, capital is comparatively concentrated in heavy industry while agriculture and light industry require more concentrated labor. Heavy industry which enjoys priority in development is likely to encroach upon the enterprises with concentrated labor and affect the employment opportunities of labor. A comparatively sound solution to this problem is to program the development of heavy industry orderly and gradually rather than speedily and hastily so that it would not affect too much the development of those enterprises requiring a massive labor force. The extent of capital concentration in heavy industry should be so selectively apportioned that more funds could be committed to those enterprises which do not require heavy concentration of capital than to enterprises which require very heavy concentration of capital. Any plan to increase the intensity of capital concentration in any enterprise or even the entire national economy should be orderly and gradual and compatible with the employment opportunities of the labor force.

In actual practice we have often lost sight of the basic conditions of our country and over-emphasized speedy development of heavy industry as we carried out the aforesaid strategy of economic development. The development of those enterprises with a concentration of capital which hindered the development of enterprises which required a concentration of labor force, the selection of too many heavy industries which required an even more heavy concentration of capital and mistakes in other areas have made it difficult for many people in cities to find employment and for a large and inadequately employed farm population to switch gradually to industry and enterprises. This is of course a serious threat to our economic development.

Fourth, the coordination of the development of domestic and foreign markets as well as export and import is a problem closely related to the three problems discussed above in our endeavor to carry out the strategy of developing the national economy by building and developing heavy industry. As mentioned above, being a large populous country, comparatively rich in natural resources, we ought to adhere to the principle of independence and self-reliance. We should produce for our domestic market and target our products mainly for meeting the need of our domestic market. We should also rely basically on what we can produce within our country to satisfy the need for the means of production and means of subsistence. However, the problem we run into as we push for preferential development of heavy industry is that the means of production required to develop heavy industry have to be imported mostly from foreign countries, in fact a very large part had to be imported during the initial stage of our construction of heavy industry. We have to rely for a considerable length of time on exporting such primary products as agricultural produce and minerals, handicrafts and art objects and light industry products to trade for the means of production required by heavy industry. A large part of these products are the daily necessities of the people. Consequently, we have to cut back the people's consumption and postpone the improvement of their livelihood in order to import the means of production required by heavy industry. The problem which is hard to resolve and must be resolved satisfactorily is how to coordinate our efforts to develop both domestic and foreign market, export and import as we carry the aforesaid strategy of economic development. Today as far as we can see, a satisfactory solution to this problem ought to take into consideration the following points:

The development of heavy industry should proceed in an orderly way without depending too heavily on exporting agricultural produce and light industry products to trade for the technical equipment and supplies it requires. Moreover, the development of heavy industry should be geared to meet principally the needs of our domestic market on the one hand and our need to open up the international market. Let heavy industry export as much as possible its own products to trade for the imports it needs so as to reduce the pressure on the domestic market brought about by excessive export of light industry and agricultural products.

The development of agriculture and light industry in particular should be targeted to the needs of both the domestic and the international market in order to expand their import and export capabilities during the progress of their development.

While we develop enterprises requiring concentration of capital, we must also develop enterprises requiring concentration of labor force so as to bring into play the competitive superiority of our products due to abundant manpower and low wages.

The fourth point has never been fully explored in our country. The fact that we rushed headlong to develop heavy industry is because we were anxious to develop and produce within a short time the technical equipment and supplies needed to develop our national economy without relying on imports. We even planned to be completely self-sufficient. There is no doubt this approach leads to various negative results such as slowing the increase of the people's consumption, obstructing the expansion of export capabilities and then the expansion of import capabilities, cutting back employment opportunities and retarding our competitive superiority in the international market.

Apart from the problems in the above-mentioned four areas, we made another serious mistake in executing the aforesaid strategy of economic development. We did not control the population growth when we were in hot pursuit of high-speed development of production. The increase of population in turn makes the problems referred to above more acute and difficult to resolve. Rapid increase of population lowers the people's level of consumption and makes all possible improvement of the people's livelihood impossible to realize and it also lowers the rate of accumulation and the possibility of expanded reproduction. Furthermore, rapid increase of population puts a great pressure on employment. As a result, all the industrial, business and government organs are overstaffed, plagued by declining efficiency and deteriorating labor discipline. These are not conducive to high-speed growth of the national economy. Under a socialist system it is entirely possible for people to plan for their own reproduction as they plan for the reproduction of material resources. So far we have failed to coordinate these two areas of reproduction, and such a strategic error ought to be corrected.

Needless to say, the mistakes we made, due to specific social and historical conditions, in carrying out the aforesaid strategy of economic development and the serious dislocation in our national economy due to all other factors are by no means the inevitable outcome of the socialist form of production. However, they will be corrected as the socialist economic system grows and improves because it has the inherent force to overcome such serious dislocations.

#### 4. Readjust the Strategy of Economic Development To Achieve Sustained and Persistent High Speed of Growth

Today the conditions at home and abroad are no longer the same as they used to be. To readjust our strategy of economic development as the economy itself undergoes a great readjustment and make it more compatible with the conditions of our country, we must learn from our experience and accommodate the changed conditions at home and abroad. As far as we can see, the strategy of economic development we should adopt must cover the following points. Geared to improving the people's livelihood and meeting their increasing material and cultural needs, the strategy should aim at speedy development of agriculture and light industry, making heavy industry work for agriculture, light industry and other enterprises, strengthening the weak links of the national economy, making the structure of the national economy rational and well coordinated, renovating and improving the existing industrial technology to develop those enterprises requiring concentration of labor forces, attracting and using within reasonable limits foreign capital while relying mainly on our own capital accumulation, and developing international markets for our products as we expand our domestic market. We want the readjusted strategy of development to lead to a new road of economic construction which exploits fully the potentials of the existing industry, coordinates



the development of agriculture, light industry and heavy industry, produces economic efficiency without requiring heavy investment and improves substantially the livelihood of the people. As for the speed of growth, this new road of economic construction should keep the speed of economic growth at such a pace as to insure persistence, stability and real benefit. We propose to discuss these points one by one. The objective of our strategy of economic development should be to work for improving the people's livelihood, especially that of the peasants who represent over 80 percent of our population. Since the needs of the people are so numerous and diversified, the improvement of their livelihood should proceed step by step, depending on the development of production and growth of income. The primary objective of our strategy of economic development should be to satisfy the most basic physiological requirements. The next step is to make our people live comfortably by the end of this century. Consequently, the readjustment of our strategy of economic development should aim at satisfying the basic needs of the people, and this is a problem calling for more careful study.

We have already built a comparatively comprehensive industrial and economic system, it is the foundation for further development of our national economy. The problem we have on hand is that this comparatively comprehensive industrial and economic system has a number of weak links which must be reinforced, especially agriculture, light industry, energy industry, communication, transportation, science and education. We must reinforce all these sectors in order to enable the comparatively comprehensive industrial and economic systems to play the role they should play in the next stage of our economic development.

Agriculture, the base for developing our national economy, must be reinforced. In spite of the healthy state of our agricultural development and the pending improvement of its structure, it is, nevertheless, a weak link in our economy. Moreover, there are several especially weak links in our agriculture as an entity, including forestry, animal husbandry, fishery and so on. From now on our strategy of economic development should place special emphasis on reinforcing agriculture and developing it fully in an all-round way.

In spite of the good foundation of our light industry, it is a weak link in the national economy, far from being able to meet the increasing needs of the people. Its products are limited in quantity and variety, poor in quality and high in production cost. It produces even less intermediate and high-graded products. Lacking competitive quality, its products simply cannot meet the requirement of international markets. Extensive development of the light industry should be a vital part of our strategy of economic development. This implies not only quantity but also more variety, better quality, and lower cost of production. It should gradually increase the production of intermediate and high-grade consumer goods in keeping with the people's changing pattern of consumption as their income increases. If we work hard to improve the quality of our products and increase their variety to meet the changing demands of the international markets and bring into fully play our superior competitive position based on our abundance of labor force and low wages, we can look forward to expanding the export of the products of our light industry.

Our heavy industry is fairly well established but it has serious drawbacks. The task ahead for quite some time to come is not so much to speed the development of heavy industry as to overcome its drawbacks. For instance, all the sectors of our heavy industry are technologically backward. Instead of constructing new heavy industry, we should renovate and improve the technology of the existing industry.

In fact, technological renovation and improvement should be a vital link of our strategy of economic development covering not only the heavy industry but also the entire national economy. Moreover, our heavy industry has not been able to meet the requirements for the development of agriculture, light industry and other enterprises even though it is gigantic in size. Consequently, it must be reorganized and guided to support agriculture, light industry and other enterprises. This is the only way for it to extricate itself from its existing difficulties and work toward a brighter future. Again, our machine-building industry, though capable in making single items, fares poorly in multiple-production and is crippled in meeting the competitive demands of the international market by its outmoded equipment and poor product quality. The primary objective of the machine-building industry should be redirected toward assisting all sectors of the national economy to achieve technological renovation and improvement. Consequently, it must improve its own outmoded technology and equipment and raise its multiple-production capability so as to produce technologically advanced products for all other sectors and departments. It must also readjust, reform and reorganize itself in order to expand its export. This will help make full use of its productive capability and raise its own technological level by competing in the international market.

We must work persistently to keep population growth under effective control. To work toward full employment of our labor force, we must develop more of those enterprises requiring concentration of labor force and place a reasonable limit on the development of those enterprises requiring heavy concentration of capital as well as to follow a policy which accommodates advanced, intermediate and backward technology. Our strategy of economic development should also cover measures designed to improve the quality of the population and the scientific, technological and cultural levels of the people. Obviously these problems cannot be resolved unless they are considered in the context of the overall strategy of economic development.

A reasonable rate of capital accumulation is necessary to enable our economy to grow at a sustained, stable high speed and insure continued improvement of the people's livelihood. In the past when we favored a high rate of accumulation and a low level of consumption, we believed that as long as our rate of accumulation was high, the economy would grow at a high speed. Actual experience attests that an excessively high rate of accumulation did not contribute to a higher speed of economic growth and a higher level of consumption by the people. In fact, the result was just the opposite of what one wished. The error must be corrected as we readjust the national economy and implement our new strategy of economic development. Naturally we must not cut back the accumulation rate too low and raise the consumption level too high. We have to have proper accumulation of capital to help the economy grow and sustain a high level consumption. Our past experience shows that we must avoid the violent rise and fall of the rate accumulation which is likely to result in convulsive disturbances in the speed of economic growth and heavy losses to all sectors concerned. The way to enable our national economy to grow at a sustained, stable speed is to stabilize the rate of accumulation the moment it reaches a proper level.

When we readjust the ratios of the economy, we must be sure to raise economic efficiency and seek higher speed through greater economic efficiency. Our past failure to emphasize economic efficiency has led to a tremendous waste of manpower, material resources and money, major causes of decline in the speed of economic growth. For instance, we used to focus our attention on constructing new enterprises but paid

very little attention to technical renovations and improvements of our existing enterprises and we did nothing to tap their potentials. As a result, we ended up with huge capital construction but poor returns on the investment. For example, the total investment in capital construction between 1949 and 1979 reached 650 billion yuan but only 450 billion out of the total became fixed assets. About 40 percent of the existing industrial fixed assets, due to various reasons, remained idle. In 1979, the industrial output value by per 100 yuan of fixed assets was only 103 yuan, 25 percent below the 1957 level. However, the per 100 yuan of industrial output value required 31 yuan of circulating capital, a 60 percent increase over that of 1957. According to a rough estimate, if we want to achieve a given level of productivity, it take 2/3 less investment, 60 percent less material and more than 50 percent less time to do the job by renovating and improving the existing enterprises than by constructing new enterprises. Since we already have a sizable manufacturing industry, the focal point should be placed now on bringing the role of the existing enterprises into full play and by increasing their economic efficiency. Of course, we will have to construct new enterprises but they ought to command a higher degree of economic efficiency.

In summary, if we act in accordance with the socialist economic law to carry out an equitable strategy of economic development based on the basic conditions of our country and seek to synchronize the speed, ratios and efficiency of growth, we should be able to avoid those serious mistakes and problems we ran into in our past economic construction and bring into full play the superiority of the socialist economic system to help our national economy to grow at a sustained stable high speed. We have been readjusting our national economy in recent years. These readjustments, in a long-term view, are the readjustments of the strategy of economic development. We have reasons to believe that the readjustment of the strategy of economic development, the eradication of the "left" errors in our economic work, the step-by-step establishment of a rational economic structure and a thoroughgoing reorganization of the economic system will lead our socialist economy to victory along a correct road.

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#### FOOTNOTES

1. Lenin, "Address Before the First Congress of Delegates of the National Economic Council", "Selected Works of Lenin", Vol 3 p 571
2. Engels, "Anti-Duhring," "Selected Works of Marx and Engels," Vol 3 p 350
3. Stalin, "A General Report on the Work of the Central Committee of the Communist Party (Bolshevik) of the Soviet Union to the 17th Party Congress", "Complete Works of Stalin", Vol 13 pp 296-297.

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## NATIONAL POLICY AND ISSUES

### PRELIMINARY STUDY OF THE THEORY OF SERVICE VALUE

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 4, 1981 pp 47-54

[Article by He Xiaofeng [0149 1420 6912]

[Text] A Few Queries.

Is the theory of service value a capitalist economic concept? I find it necessary to examine a few questions I have run into lately. 1. The question regarding the origin of labor value in the capitalist society. According to Marx, "Labor value is the value of the means of subsistence required by the owner of labor" which "includes among other things a given amount of expense for education or training." What kind of means of subsistence does this educational expense represent? Obviously the educational expense of a worker covers not only the necessary tools of education, such as desks and stationary (the value of these tools is created by workers of the sectors which produce the means of subsistence) but also the value of the work of educators which is not incorporated in the material means of subsistence. Thus, a part of the labor value is not the value of the means of subsistence. This value is created by the work of service labor instead production labor. 2. The question of statistical principles as applied to the national income. The national income statistically tabulated by a socialist state represents the new value created in a given year by workers engaged in the production of material goods. However, two noticeable tendencies have emerged out of the rapid growth of productivity: First, the rate of population growth goes down as productivity increases. Second, of the total number of people employed, the number of those engaged in nonmaterial production has been increasing and even surpassing that of those engaged in the production of material goods in certain of the most developed countries. Such being the case, the total value created by those sectors producing material goods is likely to show a relative degree of reduction, which is likely to be reflected statistically in the national income. In case of "zero growth" of population, there may even be an absolute reduction. If the total amount of labor force remains constant, an absolute increase of the number of people working in the nonmaterial production sectors will no doubt bring about an absolute reduction of the number of people working in the material production sectors, and possibly a reduction of the total value they create even though they may produce more material goods. The question is: Does this kind of statistical tabulation of the national income reflect accurately the rapid expansion of productivity and the rising standard of living of the people? 3. We adhere to the principle of distribution according to work, meaning to base the remuneration of labor according to its quantity and quality. The prevailing theory of distribution according to work describes "work" as labor spent for producing material goods. If so, how are we going to apply the

rule of distribution according to work to those nonproductive workers, such as service personnel, teachers, artists, writers and physicians? If "work" covers nonproductive labor, what yardstick do we use to standardize and evaluate these different kinds of labor? If "work" covers only productive labor, can the principle of distribution according to work reflect fully and accurately the socialist distribution relations?

These questions indicate the new problems confronting the narrow view of value both in theory and practice and its inadequacy in coping with the problem of services. If we say for the time being we need not consider these problems because service departments in the past were insignificant, then we have to resolve them as they are becoming increasingly pressing in the wake of rapidly expanding productivity.

#### What Is Service Labor?

According to Marx, "Consumer goods include at all times items which are in the form commodities as well as items representing a given amount of service."<sup>1</sup> The expression "items representing a given amount of service" means service labor, a concept which Marx brought forward even though he did not use this particular term.

Service labor is a popular concept in capitalist economics. According to a dictionary put out by the United States Department of Commerce, "Services are intangible goods, such as medical care, hair dressing and other forms of personal care; rail, auto and air transport; and housing."<sup>2</sup> Many economists call this kind of "commodity," provided by such services, the service labor.

There are also books on service labor written in recent years by the Soviets. In her book on "Commodities and Service Labor in the American Economy," (Zhagelashina) says: "Service labor is a substantive form of nonmaterial wealth."<sup>3</sup> "Service labor does not accumulate," and "its exchange, production and consumption take place simultaneously and are indistinguishable."<sup>4</sup>

I think service labor is a special product for exchange produced by the workers of the service departments which include among other things education, culture and art, medical care and sanitation, athletics, parts of commerce, travel and personal service (including hotels, bathhouses, photography, counseling, employment agencies, funeral homes, etc.). We make a distinction between service labor and services. Services are works of labor for particular persons whereas service labor is a special product for exchange produced by service workers. When a teacher teaches, a hair dresser fixes hair for people, a doctor treats his patients, they each offer service labor to others. They are like textile workers and machinists who provide people with different products.

The meaning of service labor is complicated by arguments about the form it takes. Some people argue that "service labor is a substance." Can't you see and touch the work of a hair stylist? Apparently since people are aware of the existence of service labor in real life, they naturally interpret in terms of a substance. More people argue that "service labor is not a substance." What kind of substance is the service labor offered by a doctor who diagnoses the illness of his patients or by a teacher who gives his students instructions? If we say service labor is only a substance, then how are we going to distinguish the service departments and the departments which produce goods?

They myth of the form of service labor comes from the characteristics of the objects of the service, the major substance of any product. This is true of the production of both commodities and service labor. There are several basic elements which make service work: first, skilled and experienced service workers; the means of service work consisting mainly of service tools and the object of service work. Service work is performed by workers who use service tools to bring about anticipated material or cultural changes in those they serve. The service labor which is the production of this kind of work finally "crystallizes" materially and culturally in the objects of the service. Some service work brings about material changes in people, such as a hair stylist who changes the style of hair. Some service work brings about cultural changes in people, such as music which molds people's temperament and teachers who impart knowledge to people. The material changes are evaluated by material criteria while cultural changes are judged by cultural criteria (such as political and aesthetic standards, etc.) which are accepted by the majority of the normal people in any society. The development of the services industry goes hand-in-hand with the development of production. When man's lifestyle meshes with the socialization of production, the service department will grow faster and faster, so fast that it in turn pushes forth the development of production. The impact of this is being felt more and more keenly in a modern economic structure. In most countries with fully developed productivity, the foremost trend of the development of the service industry, due to socialization of production and lifestyle, is the amalgamation and indivisibility of production and services. Some manufacturing companies not only have their own schools to train technicians and workers but also provide their customers with educational, information and counseling services. For instance, the "Fu-Li-De-Cai-Er Company", a principal American manufacturer of pianos and electronic organs which manufactures 17 types and 62 styles of electronic organs, runs a music laboratory and a musical instruments training class where a teacher provided with a manual can teach 6 young people and 24 children to play electronic organ.

The impact of socialized production and lifestyle on the service industry as shown in the developed countries is that the service departments have become a fast developing and most profitable industry. Kelin Ke-La-Ke, capitalist economist, says: "A very important development accompanying the economic growth is the shift of rural population from agriculture to commerce and the service industry."<sup>5</sup> (Zhagelazhina), a Soviet economist, believes "the employees of the American service industry occupy a commanding position in the entire employment structure." According to her estimate, "In the United States, the ratio of service labor in the final output value of commodities reached 45 percent in 1947 and 52 percent in 1972."<sup>6</sup> The most noteworthy point is that the capitalist economists regard a certain form of labor which is currently most important or growing at the greatest speed as the most productive. To the mercantilists the labor which imports precious metals is the most productive. The classical economists regard the manufacturing labor as the most productive. The physiocrats regard agricultural labor as the most productive. The philistine economists rank services as a special form of production today. These capitalist views are wrong. But it is another extreme to ignore the service industry and believe that service labor does not create use value and value, a denial of the objective trend of the socialization of production and lifestyle.

#### The Use Value of Service Labor.

According to Marx: "Services are but the effect of certain use value, no matter whether it is a commodity or labor."<sup>7</sup> The "use value" applied here by Marx includes not only commodities but also what we describe as service labor. In fact, all schools of economic theory admit that service labor has its use value. What we need is a concrete analysis of the production and consumption of this kind of use value.



The current theoretical analysis of the use value of service labor is represented by "Ci Hai": Service or service labor is a special use value offered to people in the form of labor activities rather than substantive material, such as the labor activities of those who work in the cultural, artistic and service fields.<sup>8</sup> This explanation is logically unacceptable. "Service labor is...a special use value." This suggests that service labor must be the product of a certain kind of real labor. However, the explanation which follows: "such as the labor activities...in the cultural and artistic...fields" is indeed very confusing. If service labor is a kind of use value, it could not possibly be a kind of labor activity because activities, the real labor applied in the course of a process, create use value but they themselves are not use value. This is the same as abstract labor which creates value but is not value. The attempt to equate the use value of service labor with the use value of "labor activities," due to lack of clear understanding of the form by which service labor expresses itself, violates the fundamental principle that actual labor creates value.

The actual labor which creates the use value of service labor is a work of service with a specific purpose, operating procedure, object, method and result. The fact that the object of the work is people makes it the fusion of both material and mental factors and its use value is to satisfy certain material and cultural needs of people. For instance, the use value of the work of a physician is to satisfy certain needs of his patient. This means to cure his illness and bring about a material or physiological change to his body and eliminate his mental agony by making him feel comfortable and easing his mind.

The attempt to equate the use value of service labor with the use value of "labor activities" is rooted in the theory that the consumption and production of the use value of service labor take place simultaneously. According to (Zhanglashina), for instance, "the production and consumption of service labor usually take place at the same time in the same place."<sup>9</sup> This theory calls for further examination. Since both production and consumption take place in the progress of a process, we have to analyze where they begin and end. The moment the production of service labor begins, its impact is immediately felt by one who receives the service. The service thus formed is immediately possessed by one who is being served. It is clear the beginning of the production of service labor is also the beginning of its consumption, although the end of its production is not always the end of its consumption. When a teacher finishes teaching, it signifies the emergence of an educational product--the end of a production process. But the product stays with the students for a long time to be consumed repeatedly. The emotional impact of the performance of an artist will not phase out immediately at the end of the performance. It will remain with the audience for a long time thereafter. Consequently, the production and consumption of service labor are not synchronized in time and space. Instead of seeking the use value of service labor, the capitalist provide service labor to earn the maximum amount of surplus value. The socialist objective of providing service labor is based on the need to develop production to satisfy the material and cultural needs of the masses rather than the acquisition of value. According to the basic socialist economic law, the material and cultural needs of the people cannot be fully met unless the production of both goods and services is developed. Moreover, the cultural needs will keep growing as the development of production and lifestyle become more and more socialized. That is to say, as compared with the means of subsistence, the consumption of service labor will outstrip the former. So the objective tendency of social development favors much faster development of the production of service labor.

## The Value of Service Labor

As explained above, service labor is a special product for exchange. A producer of service labor must go through exchange to earn social recognition of his labor and obtain the commodities he needs or the use value of the service labor.

Like a producer of commodities, a producer of service labor is especially concerned about the ratio of exchange between his product and any other kind of product. This ratio exists because both the commodities and the service labor for exchange contain a given amount of human labor, and they both have value. Marx had explained the value of this kind of service labor. He said: "The total amount of consumer goods is greater than the amount which does not include consumable services. Secondly, its value is also greater because it represents the value of the commodities it served and the value of the service. It must be noted, like the exchange of commodities, it involves exchanges of equal value. Consequently, the same value stands for two different facades, the one on the buyer's side and the other on the seller's side."<sup>11</sup>

This introduces a brand new relationship to the basic concepts of economics and broadens the meaning of value. Since the use value covers both goods and services, value also includes the value of goods and services, both the products of labor.

This issue has been a "forbidden subject" to our economists for a long time. In reality, the question whether labor has any value depends not so much on the concrete form of labor as on its social manifestations. In a capitalist society, the workers, whether engaged in producing goods or services, are hired laborers exploited for surplus value by the capitalists who are after maximum surplus value no matter whether they invest in the production of goods or services. In a socialist society where exploitation has been uprooted in the sectors producing material goods as well as sectors producing services, the workers in both areas are cooperating comrades who create both use value and value. As far as this goes, there is no distinction between the production of commodities and the production of service labor. Today as production and lifestyle are becoming increasingly socialized, both production and services are so interwoven and interdependent that it is practically impossible to distinguish them statistically.

We say service labor has value, but we do not agree with the capitalist economists. Even though the capitalist classical economists and the philistine economists do not agree on service labor value, both have made mistakes in this particular area. The classical school, due to historical factors, is obsessed with the booming manufacturing industry of the time. Denying the importance of the service industry, it does not believe service labor creates any value. Needless to say, this is diametrically opposed to the theory of service labor value. But the position of the philistine school is hard to define.

The philistine school also believes service labor has value, according to its spokesman Sa Yi [5646 0122], who made at least three serious mistakes in his research on service labor. First, although he admits that the end-result of the work of physicians, teachers and artists is service labor, he equates the "services" imposed on people by the decadent social system and subjective wishes with service labor and does not regard it as induced by such objective factors as the growth of productivity and socialized lifestyle. For instance, he argues that kings, administrators, soldiers, prostitutes and gamblers are also producers of service labor. Second, basing his

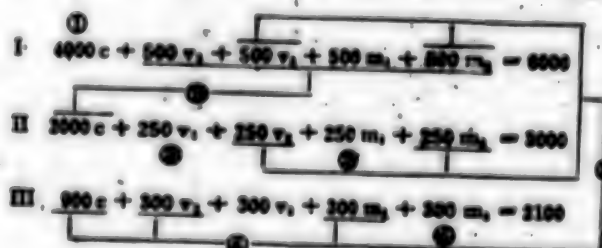
argument on the theory of equating usefulness with value, he fails to distinguish the use value of service labor from its value and erroneously regards service labor as an "intangible product or a value which is consumed the moment it is produced."<sup>11</sup> Third, repudiating the theory that labor is the only source of value and trying to fit the value of service labor into his framework of "three elements," he argues that the value of service labor is an intangible product created by labor, capital and forces of nature working together. He says: "It is always necessary to spend some money to decorate a garden or amusement park. Such being the case, the intangible product is produced by capital and land working together."<sup>12</sup> Consequently, the capitalist who provided the capital and the landlord who provided the land to produce the value of this "intangible product" are entitled to the profit and land rent. This theory, obviously meant to "serve" exploitation by the capitalists and landlords, differs diametrically from our theory of service labor value.

The uniqueness of service labor value is that most of it is realized through the medium of treasury disbursement rather than direct payment in cash. For instance, the government of a capitalist society runs schools, hospitals and nonprofit enterprises and the service labor created by their workers is exchanged through the government with other products. The surplus value these workers create is turned in through the government as apart of the general fund. The teachers, physicians and other workers are paid wages representing the value of their labor which the government has received from consumers as tax. From the viewpoint of society as a whole, the total service labor, except the portion consumed by the service department itself, is exchanged for equal value with the total amount of means of subsistence consumed by the service department. To realize the service value completely, the production of service labor must adapt to the production of the material goods. In analyzing the relationship between these two kinds of production, I propose to name the service department the third category. Let us take a look at the relationship of the three categories in simple reproduction conditions.

Suppose the structure of the value of the products of these three categories is as follows:

$$\begin{array}{ll} \text{I} & 4000C + 1000V + 1000M = 6000 \\ \text{II} & 2000C + 500V + 500M = 3000 \\ \text{III} & 900C + 600V + 600M = 2100 \end{array}$$

Let us divide V and M into  $V_1$ ,  $V_2$  and  $M_1$ ,  $M_2$ . The  $V_1$  and  $M_1$  represent the value of the means of subsistence consumed by the workers and capitalists while  $V_2$  and  $M_2$  stand for the value of the service labor used by the workers and capitalists respectively. To simplify the process of computation, let us say the consumption of both the workers and the capitalists consists of 50 percent means of subsistence and 50 percent service labor. In other words,  $V_1 = V_2 = \frac{V}{2}$ . Thus, the following diagram shows the relationship between the three categories:





We know I 4000C is compensated for by the means of production used in this category and therefore realized through internal exchange within the same category. This completes the first round (1) of exchange. The second round (2) of exchange, as we know is II 2000C = I(1000V + 1000M), the balance between the production in categories I and II. The third round (3) of exchange is II(250V<sub>1</sub> + 250M<sub>1</sub>), the value of the means of subsistence consumed in category II but realized through exchange within the same category. The fourth round (4) of exchange is III(300V<sub>2</sub> + 300M<sub>2</sub>), the value of the service labor consumed in category III but realized through exchange within the same category. Exchange (5) includes the material in I (500V<sub>2</sub> + 500M<sub>2</sub>) converted into means of subsistence through exchange round (2), the means of subsistence in II(250V<sub>2</sub> + 250M<sub>2</sub>), the value paid by categories I and II for the service labor as all the means of subsistence is realized through exchange with category III, and III(900C + 300V<sub>1</sub> + 300M<sub>1</sub>), the value of the means of subsistence required by category III realized through the purchase of service labor by the service labor consumers of categories I and II. The products of all three categories must go through exchange to realize their value and get compensated in material substance. This means:

$$I(500V_2 + 500M_2) + II(250V_2 + 250M_2) = III(900C + 300V_1 + 300M_1) = 1500$$

It is clear that the way to realize simple reproduction in any society is to see to it that the total value spent out of the variable capital and surplus value of categories I and II for service labor must equal the total value spent out of the constant and variable capital and surplus value of category III for the means of subsistence. Thus, the realization of simple reproduction in any society is as follows:

- (1)  $I(V + M) = II C$
- (2)  $I(V_2 + M_2) + II(V_2 + M_2) = III(C + V_1 + M_1)$

Expanded reproduction may be analyzed the same way. Suppose the value of products of the three categories is distributed as follows:

$$\begin{aligned} I & 4000C + 1000V + 1000M = 6000 \\ II & 1500C + 750V + 750M = 3000 \\ III & 700C + 700V + 700M = 2100 \end{aligned}$$

Suppose the accumulation rate of category I is 50 percent,  $\Delta M = \Delta V + \Delta C$ . Of these,  $\Delta M$  is capitalized surplus value,  $\Delta C$  is additional constant capital and  $\Delta V$  is additional variable capital. Distribute the  $\Delta M$  of I, II and III to C and V according to the original components of each category:

$$\begin{aligned} I & 4400C + 1100V + 500M = 6000 \\ II & 1600C + 800V + 600M = 3000 \\ III & 900C + 900V + 300M = 2100 \end{aligned}$$

Thus, the exchanges between categories, I, II and III are as follows (this is applicable from year to year):



This shows expanded reproduction is realized as follows:

$$(1) I(V + \Delta V + M) \quad II(C + \Delta C)$$

$$(2) \sum (V_2 + \Delta V_2 + M_2) > III(C + \Delta C + V_1 + \Delta V_1 + M_1 - \Delta M_1)$$

These two formulas demonstrate the mutually dependent and restraining relations between the three categories. The development of categories I and II requires comparable development of category III, otherwise a part of the value of the means of subsistence cannot be realized, and expanded reproduction cannot proceed normally. The development of the service department must be accompanied by comparable production of the means of subsistence, otherwise the value of service labor cannot be realized, and expanded production of service labor would be affected.

#### The Magnitude and Structure of Service Labor Value.

The magnitude of the value of service labor is determined by the necessary working time in a society where service labor is created. It is in direct ratio to the amount of labor committed to service but in reverse ratio to the service labor efficiency. The higher the service efficiency, the more service labor would be created per unit time and the less the magnitude of value in per unit of service labor. To raise the efficiency of service labor is an important task of the workers in the socialist service departments.

The service labor value consists of three parts:  $C + V + M$ . The  $C$  stands for the value of the means of labor required to create service labor. Since the process of producing service labor is also the process of consuming the means of subsistence, these means of labor are means of subsistence and not means of production even though they play a role in producing service labor. For instance, hotel rooms, bedding and other supplementary articles used for rendering hotel service are produced by the material production department as means of subsistence which are consumed in the process of producing service labor as their value is transferred to the service itself. We can see that the production of the means of subsistence has a decisive effect on the production of service labor. The expansion of the scope and variety of the means of subsistence is conducive to the development of more service labor. For instance, the use of electrocardiogram and ultrasonic instruments has led to more service labor in hospitals. The development of the production of the means of subsistence increases service efficiency. For instance, electrical hair clippers shorten the time of a haircut. Some means of subsistence could replace a part of service labor. In the West there are self-help hospitals where patients are checked, diagnosed and given prescriptions by automatic devices. Since their case histories are stored in computers, a hospital needs only a few doctors to push the buttons. Those electronic equipments apparently have replaced a part of the medical and nursing labor. The  $V$  represents the means of subsistence for producing, maintaining and developing the service workers and their dependents as well as the value of the service labor. The service labor cannot be produced on a large scale at a high speed and its labor efficiency does not increase fast enough, and as a result the service department absorbs a tremendous labor force (this uniqueness makes the service department a more effective medium than other departments in resolving the unemployment problem). The fact that some of the service workers require more education and better technical skill to handle sophisticated services make their education and training very expensive. Consequently,  $V$  is greater in ratio than  $C$  in the value of service labor. In a word, the organic component

of the value of service labor is rather small. In the United States, the ratio of industrial and service labor wages in the average cost of a product is 30 percent for industrial wage and 70 percent for service labor wage. However, the average wage of a service worker is still lower than that of an industrial worker. The M represents the value of surplus labor created by the service workers. In a capitalist society, this is regarded as surplus value created by the service workers but owned by the capitalists. In a socialist society, this part of the product created by the workers belongs to society as a whole and eventually returns to hands of the workers. Like the producers of material goods, the service workers contribute to society their service and ought to be treated equally to those working in the material goods manufacturing departments.

### The Implications of the Theory of Service Labor Value

In the first place, the theory of service labor value which forms part of the labor value theory, along with the theory of commodity value, reinforces the foundation of the science of political economy. In the past, the theory of labor value was subjected to certain restrictions as it covered only the theory of commodity value. The theory of service labor value supplements and improves the theory of labor value, and as a result consolidates the theoretical base of the science of political economy. It helps resolve such problems as the origin of the value of labor force in a capitalist society, the redistribution of the national income, the exploitation by the capitalists of the nonmaterial production sector, the socialist system of distribution and the statistical tabulation of the gross output value and the national income. In the 1950's our economists argued heatedly on the question of the realization of commercial profit under the capitalist system. They were unable to reach any conclusion because there were different viewpoints regarding the work of commercial staff and workers. According to the popular theory of political economy, the capitalist circulation costs consist of productive circulation costs and nonproductive circulation costs (simple circulation costs). The latter includes advertisement, bookkeeping, wages of shop clerks, etc. which do not increase the use value and value of the commodities. These expenses are recouped by raising the selling price of the commodities. This, however, introduces a discrepancy between the value and price of the commodities, forcing the price high above value. There are also contradictions in theory. If the consumers were asked to pay for these simple circulation costs through their purchase of the commodities, a worker who has to use his wage to pay for the simple circulation costs of the consumer goods he buys is likely to lose a part of his essential means of subsistence. That contradicts the law of exchange at equal value. If these simple circulation costs were withheld from the surplus value of the capitalists by giving the workers comparable increases in wage, it contradicts the law of surplus value and does not agree with reality. These contradictions could be easily resolved by applying the theory of service labor value. According to the theory of service labor value, the labor of a commercial worker includes his "service" to a material substance which constitutes material production labor and his service to people which constitutes service labor. They both create value and use value. The total price of a commodity (actually the price of commodity plus the price of service labor) is set on the basis of the total value of both the commodity and the service labor, and it is sold for its value. What the industrial workers, shop clerks, bookkeepers and advertisement workers get is only their wage which is comparable to the value of their labor. The surplus value they created is exploited by the industrial and commercial capitalists. So we can see why the commercial capitalists are



willing to spend more and more money for advertisements because it brings more surplus value to the capitalists (this does not imply those advertisements not approved of by society). The theory of service labor value helps resolve those problems which the theory of commodity value cannot resolve.

Secondly, the theory of service labor value could lead to rational readjustment of our economic structure so as to encourage the production of goods and services and improve the standard of living of our people. In the past, the disruptive effect of the extreme leftist line and the rigidity of our economic theory and policy has led us to such an irrational economic structure that we have emphasized unduly the development of the means of production, overlooked the importance of producing consumers goods and practically abandoned the production of service labor. Our college education is still below the 1966 level. Our intermediate, technical and normal education has been greatly weakened. Our middle and elementary schools as well as child care are all very backward. The ratio of our educational expenditure in the state budget and the per capita educational expense are far below the level of many other countries, even India. Our medical and personal services have not been able to keep pace with the growth of population and industry. One of the important reasons for this is our long-established prejudice against the service industry. We thought it did not create value and use value and yet depended on the production sectors to "redistribute" to it both production value and products. Consequently, the service industry was regarded as a liability which of course must be reduced to a bare minimum. According to the theory of service labor value, the service department is also a sector of the economy and must keep pace with production of the means of production and the means of subsistence. Otherwise, normal social economic activities cannot sustain. Moreover, as an end-product, the production of service labor is tied directly to the standard of living of the people. Consequently, we must organize the production of both goods and services according to the conditions of reproduction by the three categories so as to maintain a rational economic structure which permits the people's standard of living to rise with the growth of production.

Thirdly, the theory of service labor value is the foundation of service economics. Our economists have had industrial economics and agricultural economics for a long time. But there is yet no service economics. Due to the need of the four modernizations, people are writing about educational economics and tourism economics. There are objective laws of service economics. We must study these laws and their relations with the laws of the production of material goods in order to guide and promote all-round development of socialist production. The theory of service labor value is the very theoretical base of service economics.

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#### FOOTNOTES

1. Marx, "The Principles of Surplus Value," People's Press, 1975 p 160.
2. "Dictionary of Economics and Statistics Terms," Chinese People's University Press, p 14.
3. (Soviet) (Zhagelazhina), "Commodities and Service Labor in the American Economy," Chinese Finance and Economics Press, 1979 p 220.
4. Ibid., p 1-2.

5. Katin. Ke La Ke, "A Survey of Economic Development," London, 1940, p 176.
6. (Soviet) (Zhagelashina) "Commodities and Service Labor in the American Economy," p 30.
7. Marx, "Das Kapital," Vol 1, People's Press, 1975, p 218.
8. "Ci Hai" Separate Volume on Economics, Shanghai People's Press, 1978 p 20.
9. (Soviet) (Zhagelashina), "Commodities and Service Labor in the American Economy," p 33.
10. Marx, "The Principles of Surplus Value," Vol 1 pp 160-161.
11. Sa Yi, "An Introduction to Political Economy," Commercial Press, 1963, pp 126.
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CSO: 4006/327

## NATIONAL POLICY AND ISSUES

### 'RENMIN RIBAO' ARTICLE ON EXPANDED REPRODUCTION

HK110813 Beijing RENMIN RIBAO in Chinese 28 May 81 p 5

[Article by Wu Zhenkun [0702 2182 0981]: "Take the Road of Expanded Reproduction With Main Emphasis on Intension"—passages within slant lines denote boldface type]

[Text] In our country's socialist construction, some comrades have always entertained the thought that only by carrying out capital construction would it be possible to achieve expanded reproduction. Thus, whenever the term expanded reproduction was mentioned, the first thing that came into their mind was the starting of new projects. They did not pay any attention to raising production efficiency or to tapping the potentials of existing enterprises and renovating and restructuring them. Dictated by this mentality, they invariably scrambled for more investments, projects and materials each year when arrangements were made for the national economic plans. They gave little or no thought to other roads of expanded reproduction. An important reason for this is their failure to clearly understand the Marxist principles of expanded reproduction by extension and expanded reproduction by intension. Therefore, it is necessary for us to study again some of the relevant expositions by Marx and correctly handle the relations between expanded reproduction by extension and expanded reproduction by intension in light of China's actual conditions.

//Exposition by Marx//

First of all, let us study several relevant expositions by Marx.

In analyzing the causes of expanded reproduction, Marx pointed out: "Production expanded year after year due to two reasons: the steady increase in capital thrown in for production purposes and the steady rise in the rate of capital utilization. Petty reforms are being carried out in the course of reproduction and accumulation and in time the entire scale of production will take on a completely different look." ("Collected Works of Marx and Engels," vol 26, book 2 p 598)

Referring to the fact that accumulation can be used in expanded reproduction by extension and expanded reproduction by intension, Marx pointed out: "We have seen in chapter 22 in volume 1 of this book that accumulation, the conversion of surplus value into capital, is essentially a process of reproduction on a progressively increasing scale, whether this expansion is expressed extensively in the form of an addition of new factories to the old, or intensively by the enlargement of the existing scale of operation." (Ibid., vol 24, p 356)



Marx held that we can enlarge the scale of production within certain limits even without accumulation. He said: "A given capital may expand its volume of production within certain limits without any accumulation." (Ibid., vol 24, p 363)

Referring to how depreciation funds can be used in expanded reproduction, Marx clearly pointed out: "This part of the value of the fixed capital transformed into money may serve to extend the business or to make improvements in the machinery which will increase the efficiency of the latter. Thus reproduction takes place in larger or smaller periods of time, and this is, from the standpoint of society, reproduction on an enlarged scale—extensive if the field of production is extended; intensive if the means of production is made more effective. This reproduction on an extended scale does not result from accumulation—transformation of surplus value into capital—but from the reconversion of the value which has branched off, detached itself in the form of money from the body of the fixed capital into new additional or at least more effective fixed capital of the same kind." (Ibid., vol 24, p 192)

These remarks by Marx show that there are two types of expanded reproduction: one is expanded reproduction by extension and the other is expanded reproduction by intensification. Expanded reproduction by extension means that the scale of operation is enlarged simply by increasing the quantity of the elements of production, that is, by putting in additional manpower, investment, equipment, raw materials and floor space for production. This type of expanded reproduction is characterized by the development of production in breadth. Expanded reproduction by intensification means enlarging the scale of operation with the help of advanced production techniques, improved and well organized elements of production and more efficient living labor and means of production. It means developing production in depth and in the direction of intensity. In actual economic activities, reproduction in society is made possible by ever increasing labor productivity and production efficiency in the whole of society. Thus, in expanded reproduction, the factors for extension and the factors for intensification are linked.

These remarks by Marx also show that the classification of expanded reproduction into the two categories of extension and intensification does not have any direct or natural connection with accumulation. With accumulation, there would naturally be reproduction on an expanded scale. However, the enlargement of the scale of reproduction does not necessarily require accumulation in every case. In other words, expanded reproduction may or may not depend on accumulation. For example, fixed assets may serve many production cycles within a fairly long period of time. After gradual wear and tear, they would be replaced after they have completely lost their capacity for production. Before all fixed assets have been replaced, a portion of the depreciation funds may be used to augment the capacity for production. This is what we mean by expanded reproduction without accumulation. Marx said: "In places where a lot of constant and fixed capital are used, a portion of the output value has to be set aside for the replacement of the wear and tear of the fixed capital. They are called accumulation funds. As additional investment, they can be used as fixed capital (or circulating capital) and are not to be deducted from the surplus value." ("Collected Works of Marx and Engels," vol 26, book 2, p 548) By accumulation funds, Marx actually meant depreciation funds. Therefore, it is one-sided to think that accumulation is the only source of expanded reproduction.

Of course, there are restrictions as to how depreciation funds can be used in expanded reproduction. First, depreciation funds are by nature replacement funds.

Therefore, their first priority is to ensure the replacement of the fixed assets so that production on the original scale, that is, simple reproduction, can proceed normally. Second, the portion of depreciation funds going to expanded reproduction should primarily be spent on the technological transformation of the enterprises, that is, expanded reproduction by intension. Only when there are surpluses should they be used in expanded reproduction by extension. Third, how much depreciation funds should go to expanded reproduction is closely related to the stage of development of a country's industrialization. At the early stage of industrialization, there is a rapid growth in the number of new enterprises and facilities. Before these enterprises and facilities need to be replaced, a fairly large portion of the depreciation funds may be spent on new or extension projects. By the time most of the enterprises and facilities are in need of replacement, the depreciation funds should be spent on expanded reproduction, chiefly technological transformation involving replacement. During the period of the first 5-year plan when large-scale construction first began, our main concerns were new and extension projects. Therefore, we could and had to invest a portion of the depreciation funds in new projects of construction. At present, the number of our enterprises has greatly increased and many old enterprises are badly in need of technological transformation. Under such circumstances, we can no longer spend the depreciation funds on new projects. Instead, we should spend such funds on the technological transformation of existing enterprises so as to gradually modernize them.

#### //Some Misunderstandings//

If we have a good grasp of the expositions by Marx on the two types of expanded reproduction and on the relations of accumulation and depreciation funds to expanded reproduction, we can clear up a number of misunderstandings.

The first misunderstanding is to think that we can only maintain simple reproduction by tapping the potentials of existing enterprises and renovating and restructuring them, and that if we want to enlarge the scale of reproduction we must carry out capital construction. This view is wrong. After tapping the potentials of existing enterprises and renovating and restructuring them, that is, achieving expanded reproduction by intension, we no longer need to start new projects. By improving the machinery and equipment, raising the technical level of workers, improving the organization of labor and methods of management, introducing specialization and co-ordination in production and so on, we can enlarge the scale of production. Tapping potential, renovating and restructuring are more than just a form of simple reproduction of the fixed assets. They are also a form of expanded reproduction. The reason is that with the constant advancement of technology, tapping potential, renovating and restructuring would not normally restore the production facilities of an enterprise to its original form and technological standards but would invariably result in replacements with modified technology and facilities. As Marx said: "The instruments of labor are largely modified all the time by the progress of industry. Hence they are not replaced in their original, but in their modified form." (Ibid., vol 24, pp 190-191) Thus, the tapping potential, renovating and restructuring cannot but bring about expanded reproduction to a certain extent. For this reason, we cannot look upon capital construction as the only form of expanded reproduction.

The second misunderstanding is to completely equate capital construction with expanded reproduction. This is also wrong. It is true that capital construction is an

important form of expanded reproduction, but not all undertakings in the field of capital construction are expanded reproduction. The reason is that some such undertakings are intended for replacing that part of the production capacity which has already been scrapped and for carrying on the existing scale. Take a coal mine for instance. In a particular year, 500,000 tons of coal production capacity was scrapped. In order to maintain the design scale of production, the mine opened a new well with a capacity of 500,000 tons. Although this was a capital construction project, it could only be called simple reproduction because it only served to restore the designed capacity and had not enlarged the scale of production. For another example, a new project may appear to be expanded reproduction of fixed assets to a certain enterprise or locality, but it may not be purely expanded reproduction where the whole of society is concerned. If in a particular year 1 million tons of the country's oil producing capacity was scrapped but a new production capacity of 2 million tons was acquired, then the net increase in capacity would only be 1 million tons as far as the whole country is concerned. The other 1 million tons would be a factor for simple reproduction in expanded reproduction. Thus, the concept of capital construction not only includes new and modified projects which fall into the category of expanded reproduction of fixed assets but also includes the renewal of equipment and the replacement of fixed assets which fall into the category of simple reproduction. The practice of completely equating capital construction with expanded reproduction does not tally with the actual situation.

The third misunderstanding is to think that it is impossible to modernize the national economy without carrying out capital construction and starting new projects. To achieve modernization, of course we must carry out capital construction and build a number of modern factories to serve as the backbone. However, we must also renovate and transform the existing enterprises or we would fall short of our goal. Modernization is constantly developing and changing; it is relative. The technical facilities of the 1970's are modern by today's standards, but a few years later they would no longer be considered modern. If we devote all our attention to building new factories and do not renovate and transform the existing enterprises, how can we achieve modernization? Constantly carrying out technological transformation in the existing enterprises is the common road traveled by all economically developed countries. Many of their renowned enterprises have had a history of several decades and have become modernized through constant renovation and transformation. This is what our country should do. Due to the shortage of funds, we should not take capital construction as the main emphasis of our modernization program. Instead, we should constantly carry out technological transformation in the existing enterprises and modernize them step by step. This is our only correct road to modernization.

#### //Historical Lessons//

In the early days of the People's Republic, it was completely necessary for us to build new factories because we had to lay a solid foundation for industry and expand our capacity for production. After 30 years of construction, we now have close to 400,000 industrial and communications enterprises. These enterprises are the foundation and starting point of our modernization program; they are our prop. We must not belittle this foundation, still discard less discard it.

Under the guidance of erroneous "leftist" ideology, many of our comrades always wanted to "get going and go all out." They did not make any effort to properly



make use of the existing production capacity and devoted all their time and energy to acquiring new capacity. This led us to follow a road of high accumulation but poor returns, in which capital construction was stressed at the expense of production. We thought expanding the capacity of production meant carrying out capital construction in a big way. Thus, we amassed large funds for building new factories, particularly those in the field of heavy industry which required a lot of investment and took a long time to complete. The preparatory work for many capital construction projects was very poorly done and there was a lack of coordination between various projects. We even found ourselves stuck with a large number of projects which did not measure up to the construction and production requirements and with processing industries producing goods which were already in full or excessive supply. These projects used up a good deal of our financial and material resources and their construction dragged on and on. They were unable to contribute to our production capacity, and could not operate normally even if they did. As regards the old enterprises, we did not devote much energy to improving their management and did not pay any attention to their renewal and technological transformation. We even went in for capital construction under the pretext of carrying out renovation and transformation. As a result, these enterprises have remained in a backward state all these years, producing the same high-cost, low-quality and incompetent goods. We only cared about output value in production and paid no heed to market demand. Our failure to coordinate production and marketing resulted in overstocking. This backward and unreasonable state of production resulting from a lack of planning also caused shortages in the supplies of energy and raw materials. This in turn caused us to further enlarge the scale of capital construction, particularly that of heavy industry. This persistent ailment cost us very dear. What we had followed was a road of achieving expanded reproduction by extension, made possible by squeezing people's purses and maintaining a high rate of accumulation. Viewed superficially, this road enabled us to achieve a not-so-slow growth rate in production. However, it did not produce much real wealth and the people did not benefit much from it. It has been borne out by experience that we should no longer follow this beaten track alone. If we still care for nothing other than building new factories, we will continue to cause monstrous waste.

Many of our comrades are eager to start new projects and build new factories not just because they fail to clearly understand from a theoretical plane the relationship between expanded reproduction by extension and expanded reproduction by intensification. They are actually prompted by practical reasons which concern the economic interests of their own localities and units. First, because every locality wants to form a complete industrial system of its own and become self-contained, no effort is spared in capital construction. Second, under the old system of economic management, only those new projects for which arrangements have been made in the state plans are entitled to financial allocations, materials, equipment and foreign exchange. Third, in some economically backward places, building new factories is the only way to increase local products, open new sources of income and increase local revenue. Fourth, new projects and new factories will provide job opportunities to some people. Fifth, the new factories do not have to worry about economic results because they have the state to take care of everything, unlike capitalist enterprises which have to struggle for their survival. Thus, in order to solve the problem of stressing capital construction at the expense of the transformation of existing enterprises, it is necessary to work out solutions regarding the system of management in addition to eliminating the influence of "leftist" ideology.

Although in actual economic activities expanded reproduction by extension and expanded reproduction by intension are linked, they are divisible as a whole. In light of past lessons and present circumstances, we must take the road of expanded reproduction with the main emphasis on intension in our modernization drive for a fairly long time to come.

Comrade Chen said: We must "put production before capital construction and put the work of tapping potential, renovating and restructuring before that of starting new projects." This is an important summation of our experience in socialist construction. In order to "put production before capital construction," we must emphasize the need to fully bring into play the role of existing enterprises and undertake to carry out capital construction only when we have done a good job of production and have extra strength. The basic idea of "putting the work of tapping potential, renovating and restructuring before that of starting new projects" is also to fully make use of the existing enterprises. However, it goes a step further by stressing that even if we want to enlarge the scale of production, we must take the existing enterprises as the foundation and build new enterprises only when it is absolutely necessary and if we have the strength to do so. Enlarging the scale of production in existing enterprises by tapping potential, renovating and restructuring requires far less investment and can yield results much faster than starting new ones. According to estimates made by departments concerned, with this practice we can reduce investments by two-third, save 60 percent of our equipment and materials and accomplish the task in less than half the time normally required. The overall result is also better. It takes less investment to renovate an old factory than to build a new one because we can bring about a completely new look in many factories simply by introducing new facilities and new technology to certain major working procedures, or simply by changing some key parts. Even if we have to make an overall transformation and replace all old equipment, we can still make use of the factory premises, buildings, utilities and technological strength. Therefore, it is still more economical than building new factories. Moreover, our present shortage of funds and energy supplies also do not permit us to go in for capital construction in a big way. In the coming 5 years or possibly longer, our policy is basically not to start any new construction projects other than those absolutely necessary on such weak links as energy supplies and transportation and to concentrate on the renovation and transformation of existing enterprises.

Under the new circumstances, it is necessary to make a fundamental change in the policy of construction. In our future efforts to develop the national economy and enlarge the production capacity, we must gradually shift our emphasis from extension to intension and constantly strive for new technological standards chiefly by tapping the potentials of existing enterprises and renovating and transforming them. Thus, it is necessary to carry out reorganization and technical renovation in the existing enterprises according to the principle of coordination among specialized departments with a view to reducing cost, improving quality and raising efficiency. This will gradually change the appearance of these enterprises and make them equitable and modernized. Planning and responsible departments at all levels must allot more funds and materials to the enterprises so that they have the necessary conditions to carry out technological transformation. In the course of transforming the existing enterprises, it is also necessary to import advanced technology from other countries and purchase some crucial equipment. However, our purpose in importing technology from

other countries is chiefly to improve our production techniques and digest foreign technology to make it really ours. Our modernization ought to be of the Chinese style.

If we take the road of expanded reproduction with the main emphasis on intension, our pace of development may not be quite so fast, but the economic results will be good and the people will benefit more from it. Only by taking this road can a country with a large population, a poor foundation and a shortage of funds such as ours properly handle the relations between accumulation and consumption and between developing production and ensuring the people's living standards, fundamentally overcome its financial and economic difficulties and achieve steady economic growth.

CSO: 4006/359



## ENERGY

### BRIEFS

**HUBEI WATER CONSERVANCY PROJECT**—The Gashouba dam, a project that has gone on for a decade, has been authorized to store water beginning 23 May. This was announced 21 May by an inspection group composed of technicians in departments concerned of the State Council, Ministry of Water Conservancy, Ministry of Power and Ministry of Communications. The groups, which spent some 2 weeks inspecting the quality and functions of the dam's various facilities, also announced that the dam will be capable of generating electricity in July as previously scheduled. [Wuhan Hubei Provincial Service in Mandarin 1100 GMT 21 May 81 OW]

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## INDUSTRY

### JIANGSU FIRST QUARTER INDUSTRIAL PRODUCTION INCREASES

Nanjing XINHUA RIBAO in Chinese 9 Apr 81 p 1

[Article: "Jiangsu Province Industrial Production Increases Steadily in First Quarter"]

[Text] With the thorough implementation of the adjustment policy in the industrial and communications fronts of Jiangsu Province this year, production has steadily increased. The gross value of industrial production for the province during the first quarter showed a 4.1 percent increase over the same period last year. Of this, the industrial production and enterprise income for the month of March showed a striking advance over January and February. This is taken from an analysis of our province's industrial and communications production circumstances done by the provincial economic committee on 6 April.

The provincial economic committee pointed out that an outstanding characteristic of our province's industrial production this year is that there has been a manifold increase in consumer goods to satisfy the needs of the market. The value of production of light industries for the first quarter showed a 9 percent increase over the same period last year, raising it from last year's 54.6 percent of the gross value of industrial production in the province to 56.8 percent. There have been relatively large increases in the principal light industrial products, such as radios, cameras, television, bicycles, sewing machines, recorders, crude salt, sugar, printing ink, woolen fabric, knitting wool, wristwatches, leather, chemical fibers, cotton cloth, cotton yarn, print cloth, matches, plastic articles, beverage alcohol, etc.

There was a slight decrease in production value of heavy industry from the same period last year, but the heavy industry of the whole province has readjusted its product direction, making a further improvement in the circumstances of their service to agriculture and light industry. In March the production of products like chemical fertilizer, agricultural chemicals, agricultural machinery spare parts, agricultural pumps, fodder processing machinery, foggers and dusters, and other products to support agriculture, showed a relatively large increase over January and February. Some machinery plants have opened up new routes and have made a timely conversion to production of light textile machinery, and products for the light industry market, producing carding machines, drawing frames, fly frames, special lathes for producing watch cases, equipment for bicycles, electric meters for civil use, etc., and achieved good results.

The provincial industrial departments continue to pay attention to market adjustment under the guidance of the plan, to keeping production lively, and to developing the economy. At the same time they are raising the quality of products, increasing varieties, and working to conserve energy resources. Various localities and cities, with a large group of enterprises, have formulated plans for development of new varieties this year and plans for raising the quality of products, these including a program for striving for gold and silver labels and excellent quality products, and are resolute in taking measures to implement them. This year the quality of most products has been raised steadily, and activities to increase production through economy are being developed.

So far this year, the production situation of the province's industry and communications is good, but the economic results are not quite ideal, and the development between areas and between industries is not sufficiently even. The financial income of the whole province has fallen, and there has been a slight reduction in the income of industrial enterprises, and a drop in the production of energy resources. The reason why these circumstances have appeared is principally an insufficiently deep understanding of the adjustment plan and an incomplete recognition of the need to reduce basic construction and raise production, resulting in a fear of difficulty and a slackening of efforts; objectively there are also some real difficulties, like relatively tight supplies of coal, electricity, and oil, shortages of some raw materials, lateness in achieving goals under the plan, and measures insufficient for implementation, etc.

The provincial economic committee has required that industrial and communications departments in all areas must treat readjustment as the central task and pay close attention to the present golden season of production, take effective measures, and carry out production even better in the second quarter.

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CSO: 4006/318



## INDUSTRY

### SHANGHAI MACHINE INDUSTRY CONTRIBUTES TO ECONOMIC READJUSTMENT

Shanghai WEN HUI BAO in Chinese 5 Apr 81 p 1

[Article: "Shanghai Machine Industry Has Much to Contribute to the Readjustment"]

[Text] "The Shanghai Machine Industry has much that can be done to implement the further economic readjustment." Jiang Tao [5592 3447], bureau chief of Shanghai's First Bureau of Machinery and Electricity, thus excitedly described the future prospects of the readjustment for reporters. He said that the machine industry is the heart of industry, and that in the course of the readjustment of the national economy, it would undertake the glorious task of supplying advanced equipment for the technological renewal of various industries and supporting the light industry market as well as expanding exports.

Since the days of merely making repairs and supplying replacements immediately after the liberation, the Shanghai machine industry has developed into a complete, highly specialized industry with a proper level of technology. It handles more than 18,000 products, from complete sets of equipment to spare parts, and provides large amounts of technical equipment for socialist construction. However, because of the influence of "leftists," the area of its service was very narrow, and for a long time in the past it paid attention only to serving capital construction and heavy industry and neglected service to light industry, the reconstruction of various industries, or service to expansion of exports. Jiang Tao said that according to our initial understanding, there are more than 80 businesses in Shanghai's light industry and handicraft system, and a considerable part of their equipment is obsolete equipment dating from the 1930's and 1940's. After the third plenary session of the Party Central Committee, the First Bureau of Machinery and Electricity, to suit the situation of the readjustment, strove to serve the technical reconstruction of light industry and also utilized the beneficial conditions of various parts of the machine industry to organize production of a few market products directly and appropriately. Practice has shown that the scope of service to the light industry market is extraordinarily broad, and there are many things that can be done.

In recent years, the Shanghai machine industry has done a great deal of work in service to the light industry market. Comparing 1980 to 1978, the amount of plastics machinery has almost doubled, printing machinery has increased by 64 percent, rubber machinery has increased by 63 percent, and synthetic panel equipment and foodstuff machinery has both increased by 70 percent. They have provided more than 20 kinds of equipment, including small scale milk powder machines, egg roll machines, bread machines, cereal

puffers, ice cream machines, etc. There were also more than 20 plants that developed electric fans, bakelite articles for daily use, watt-hour meters, and other market items. In 1980 the value of the light industry machinery and equipment and market items produced in throughout the bureau was about 800 million yuan. Through interviews with users and market adjustments, this bureau has gradually felt out the requirements of light industry development on the machine industry, and besides organizing various plants already producing light industry machinery to exert efforts to increase production of those items for which there is an urgent demand on the light industry market, they have also organized those mainstay metallurgical, mining, petroleum, chemical, and electrical plants primarily serving heavy industry and capital construction, such as the Pengpu Machinery Plant, the Dalong Machinery Plant, the Compressor Plant, First Machine Tool Plant, the Shanghai Boiler Plant, the Shanghai Heavy Machinery Plant, the People's Machinery Plant, the Hujiang Machinery Plant, the Prospecting Machinery Plant, the Second Petroleum Machinery Plant, etc. to produce some mechanical equipment to serve the light industry market directly or indirectly and caused a new transformation in the product structure and production structure of these enterprises, making them more responsive to the requirements of the readjustment of the national economy. Workers throughout the machine industry, after converting from the former service to heavy industry and capital construction to service to light industry and textiles and service to consumers, have aroused the enterprises to an activist spirit of re-doing old products and developing new products. In 1980, the First Bureau of Machinery and Electricity system completed a total of 791 items in the renewal of old products and the trial manufacture of new products, 81 percent of these renewed and trial produced in response to market demand.

Comrade Jiang Tao said that our service to light industry is only a start. We are making a further investigation of the market, interviewing users, feeling out the situation, the better to serve the light industry market, to serve the technical reconstruction of all businesses, and to serve the expansion of exports. We recently learned that the equipment in the Huaguang Wine Plant was built in 1936, and that some of the equipment in the cigarette plant was built in 1924, and was very inefficient. We must certainly adopt a positive attitude, coordinate our own readjustment and reform, and strive to build some relatively advanced equipment for the light, handicraft, and textile industries. We certainly can do something in this area.

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CSO: 4006/318

## INDUSTRY

### DAMAGES DURING CLOSE DOWN OF HENGSHUI IRON PLANT DESCRIBED

Beijing RENMIN RIBAO in Chinese 26 May 81 p 2

[Article by reporters Cong Linzhong [0654 2651 0021] and Ou Qinglin [2962 1987 2651]: "The Faith of A Communist Party Member—A Record of Li Haicheng's Seventy-third Accusation"]

[Text] The incident relating to the serious damages made during the close down of Hengshui Iron Plant in Hebei Province has been reported in detail by this daily on 3 March. Li Haicheng's 73d accusation created such a big news headline, that the subject instantly became the center of discussion by the people of Hengshui area. The majority of the people were happy and expressed their support; the minority were astonished and were taken by surprise; and others secretly cursed the developments.

A few good friends of Li Haicheng visited him that night at his home especially to congratulate him. Before departing, one of his friends said sadly: "Dear Haicheng, now this matter has been settled, you ought to consider changing jobs. Hengshui is no longer a good place for you to live."

Why is it that if a person preses charges against someone, then this area is no longer "a good place to live"?

#### I. A Net Interwoven With Power and Connection

As soon as it was announced on 29 October, 1979 that the Hengshui Iron Plant was to be closed down, many stamped, sealing strips were hastily pasted all over the plant, and the workers were told they would be reassigned within 3 days. At midnight, the operation of the plant was suddenly stopped without the appropriate technical measures being taken. As a result, 30 tons of coke were completely burnt and destroyed; scores of tons of coke oil were lost unnecessarily; and the furnace door and frame were badly damaged by the heat. They started to auction off the plant in a large-scale way. One hundred tons of rice straw were estimated to be 40 tons and were sold at only 4 yuan a ton while the actual value was 120 yuan a ton. New bricks, 45,000 pieces, were sold for only 20 yuan. The plant buildings, blast furnaces, and other equipment were dismantled and the properties were divided.... A great confusion was created inside as well as outside the plant. Li Haicheng was profoundly puzzled: "What is happening?" "Is this going to be the end of the world?"



He loved the iron plant, the blast furnaces, the electric machineries, and the valves of all sizes and shapes which he had touched so many times. This kind of feeling is similar to one's love for his country and home. He used to be a soldier. To change profession, he studied iron smelting with great difficulty and took great pains. How could he bear to see this plant turned instantly into a heap of rubble!

"Closing down the plant is OK but not like this. Only profligate sons would do things like this." Li Haicheng's good intentions calling this to the attention of the leadership resulted, unexpectedly, in a series of struggles of a great consequence.

During this period, the following events took place. The first event: Li Haicheng presented an idea to the plant director Meng Qiufeng: Communicate with our colleagues in the province who use this same type of blast furnace so that our facilities may be transferred to them in order to utilize fully these resources. Meng Qiufeng's reply was very simple: No travel expenses! The second event: The price of the goods to be disposed was to be set by a three-man committee according to the regulation approved by the party committee member. However, from the very beginning, the division director, Zhao Xuegong, and the deputy division director, Li Haicheng, were excluded from the price-setting process and the price was set and approved by a single person, Meng Qiufeng. Goods were disposed of at low prices, or simply given away. When Meng Qiufeng was asked about the matter, he said: "Ah, every time a meeting was called you were notified, but you could not be found." Li Haicheng knew very well that he was avoiding them for fear that they would interfere with what he wanted to do. The third event: Meng Qiufeng personally escorted a vehicle transporting pure coal and coke powder to Hengshui. Li Haicheng investigated it and could not find any record of this transfer either at the weighing station or at the finance office. Where on earth did this truck load of coal go?

Lively discussions unfolded among the masses. Li Haicheng and Zhao Xuegong deliberated: Negligence and carelessness may be tolerated, but deliberate wrong and evil doing may not. "Let's go and see the director of the industrial bureau!" Li Haicheng went from Handan to Hengshui at his own expense.

After listening to his report, director Miao Qingrong of the industrial bureau asked him unexpectedly: "How much does a ton of coke powder cost at your plant?"

"Five yuan a ton if it is burned at the plant," answered Li Haicheng.

Director Miao took out 5 yuan from his pocket and said: "My share of coke powder from that truck load was one ton. Will you make a payment for me."

Li Haicheng's heart was chilled. It suddenly occurred to him that before going back to Hengshui, Meng Qiufeng said to himself: "I am going to seal the mouths." Heaven knows whose mouths this plant director did seal.

He returned to Handan with heavy heart.

Matou Zhen of Handan was exceptionally busy. The activities related to the closing down of the iron plant were at the peak of confusion. Large and small vehicles went in and out of the plant, and the area was filled with human and animal noises. Some people were scheming secretly about how they might take advantage of the

situation. Every type of trade was going on concealed by [offices of] authority and entertainment. Amidst this clamor could be heard the voice of the plant director, Meng Qiufeng, swearing: "Li Haicheng sob, let him bring charges against me; we will see how he ends up!"

If one is selfish, his acts tend to be unjust. Every day Li Haicheng witnessed various suspicious and anger-provoking affairs taking place. The party committee members existed in name only. The party committee secretary, Li Renjiu, and the party committee member and the deputy plant director, Guo Zhiyi, went, respectively, south to Guangzhou and east to Qingdao on private business and the plant director, Meng Qiufeng, was charged with the responsibility in "all aspects" of plant business so that all the power was concentrated on him. Thereupon, the power and control over personnel and properties were concentrated on several yes-men who gathered around the plant director like dust. People called this group the "gang of five." Usurping the authority of the party committee members and under the direction of Meng Qiufeng, they threw out every rule and regulation determined collectively under the direction of the party committee member and the regulations handed down from the superior organization which were to be adhered to during the process of closedown. Restraint and order had no effect. With a word from the plant director and a stamped strip from the "gang of five," anything could pass freely through the gate. Customers with connection and the connection network demonstrated their supernatural power, and criminals had a fieldday.

However, the force of righteousness was also gathering around Li Haicheng gradually, visibly and invisibly. The eyes of the masses were everywhere. Some knew about goods disposed of at below price; some knew about cash being taken in private; some knew about tricks played internally; some knew about bribes passing hands externally.... Like iron being attracted to a magnet, materials and clues were attracted to Li Haicheng from all directions. Where did the 24-ton steel ball go? How were the score of small kitchens dismantled from the workers' dormitory and given away? How did the score of electric motors disappear overnight? What on earth was that person from Ji County carrying fruits, alcohol and tobacco with him doing?

The suspicions of the masses have now all been proved to be true. Nearly 12 tons of steel balls costing on average 730 yuan a ton were sold to a production team at a ridiculously low price of 300 yuan a ton. The production team, turned around, and sold them to the government at 750 yuan a ton, making a profit of more than 5,000 yuan. Another 12 tons disappeared without a trace. The secrets of the below-price disposal of the goods were difficult for the outsider to fathom. Goods having the warehouses were not recorded. Use of the "four-page bills" for shipping goods out of the plant was abolished. Anything could be released by a single white strip. Who knows how many goods were lost thus without a trace? A truck dispatched from Ji County was to ship some scrap iron, but 33 electric motors went out with it. This theft was not discovered until the provincial investigation team came to the plant recently. Payment was not made through the finance office. Instead, cash passed hands in private. Who knows how much money went into private pockets! According to the regulation related to the disposal of goods as part of the closedown procedure, payments were supposed to be made before the goods could be released. However, that fellow in charge of a hardware plant in Ji County who came with alcohol and tobacco was able to carry away a pneumatic hammer, a melting furnace, and a blower, relying only on the old connection with Meng Qiufeng and a bottle of liquor, and the payment has not been made yet.

It was not difficult to perceive at this point that power had been turned into an instrument to satisfy various personal desires and to weave a personal connection network.

## II. Amidst Sharp Confrontation Between Public and Private

Talking with Miao Qingrong obviously did not have any effect, because the bureau was indifferent and the confusion at the plant was increasing without an end while Meng Qiufeng's unseemly behavior continued unchecked. During the day, he moved with the air of a tyrant followed by several bodyguards. During the night, this gang drank and played mahjong late into the night, disturbing the peace of the neighborhood. A party committee meeting was never called. No matter how big the scope of the matter was, it was decided over a drink or a game table. Workers who wanted to see Meng Qiufeng on a plant matter were stopped by his bodyguards and were not even able to go into the building. The masses said with a despising tone: "How could he be a plant director? How could he be a Communist Party member?" Li Haicheng was greatly ashamed. He discussed the matter with Zhao Xuegong and decided to carry out the duty a Communist Party member ought to and once more tell Meng Qiufeng in person about the grave consequences.

He tried three times to meet with Meng, and failed three times. What about lax implementation of rules and regulations, dissatisfied masses, improper use of personnel and government properties, preventing Li Haicheng from doing his work, Meng Qiufeng was not interested in hearing all about these. "You don't need to interfere." "We will discuss it later." And in private, he swore and said that Li Haicheng was not doing his work, only accusing.

The number of folds on Li Haicheng's brain was not smaller than that of any other person. Analyzing the situation inside and outside the plant, he perceived that he was opposing a formidable force. Although they were small in number, their power was enormous. He also perceived the inherent weaknesses of his opponents: No public support and no truth.

He could not sleep during the night. Again and again, he went over the series of mysterious events that had taken place since the close down of the plant started. When it was announced that the plant was to be closed down, it was also announced that all workers were to remain in Handan and were to be transferred to the Provincial Metallurgical Bureau. However, Meng Qiufeng was able to get the approval of the director of the industrial bureau 20 days ahead of time and transferred his daughter back to Hengshui. Li Renjiu threw down his work and went to Guangzhou, accompanied by his wife, to see a doctor. Before leaving, two workers were assigned especially to watch and take care of the house. While he was indifferent to tens of thousands of government properties, he was so meticulous about taking care of his house! Guo Zhiyi, attending to private affairs in Qingdao, drove the plant jeep which broke down on the way, costing 6,500 yuan to repair. The masses could see very clearly that these fellows were not carrying out "four modernizations" but "personalization." Why should not a Communist Party member step forward? Thereupon, he got up, turned the light on, and started to write a letter to the superior officer.

"Scheming for his own profit, using his power of office, and taking advantage of the occasion of close down, that is the true nature of the affair." Li Haicheng



told the reporter: "Who will not be angered by such an affair? It is not only I who would like to press charges. I am quite certain that in a country led by the Communist Party, their evil doings must sooner or later be exposed. Have you seen the film, 'Little Soldier Zhang Ga'? I can still remember the words uttered by the Ga fellow: Enjoy yourself now as much as you will, just beware of the statement of account which will come later!"

### III. Unpenetratable by Drill or Chisel

Bringing charges against someone is sometimes not so easy. One has to taste everything including sour, sweet, bitter, and hot.

Li Haicheng did not sign his name to the first letter he wrote. He thought: What happens if it was returned to the industrial bureau? Or to the plant?

Nothing happened after the letter was mailed. Haicheng thought about it: Nobody will pay attention to an unsigned letter. What am I afraid of? If you press charges, sooner or later you will be required to prove it face to face. If you are afraid, don't do it. He signed his name prominently to the second letter expressing a kind of imposing righteousness.

One after another letters went out. At the same time, the letters of accusation written by his colleagues at the iron plant--Yan Zhichao, Li Dongjiao, and Liu Changsheng--also went out. These letters were full of the loyalty of Li Haicheng and his comrades toward the undertakings of the party, and their complete confidence in this superior leading organization. They were full of the desire to uphold righteousness and the concern for loss of the government properties which were being plundered. These letters were brought before the leaders at the provincial and local party committee levels as well as to the offices of all departments concerned. However, though days past like flowing water, nothing happened; nobody inquired after them, and everything remained as usual at the plant. Li Haicheng could not sit still.

"I will visit them at their house!"

Li Haicheng's experience related to his "visits at the house" was quite noteworthy. From it we can learn the mental state of some cadres in some organizations. After having tried to visit the leading personnel of every department concerned, Li Haicheng got an impression: Some people twisted their face in disgust when they saw him. After repeated visits, he could read on the faces of many people: "Why are you here again?" "Why, its you again!" He became a persona non grata.

He was either refused admittance or responded to lazily: "I understand. It's been forwarded to the concerned leadership. You go back and wait." Sometimes, no sooner did he mention the iron plant then his opponent said: "Oh, you go see the bureau director Miao." Director Miao would run away from him as if he was carrying some kind of a disease, as soon as he saw him, leaving him alone in the building. When Li tried to see the chairman of the economic commission, the chairman was always busy or was in conference. "In that case I will visit you at home tonight...." These words touched the chairman as if burning coal on his skin and he replied hurriedly: "Don't go to my home, you must not go to my home!"

How busy was he? One day at 6 o'clock in the morning, Li Haicheng waited at the gate of his house. This chairman came home every day at this time after catching fishing worms.

Li Haicheng: "I tried to see you several times and was not...."

The chairman's words were the same: "You go see old Miao."

Li Haicheng: "Director Miao told me to see director Zhang who told me to see director Miao. I am being kicked around! My desire is to call attention to this upward according to the chain of command. If matters cannot be solved this way, I can only go even higher up."

His opponent was angered: "Suit yourself to go as far up as you desire. It does not matter if you were to call this to the attention of the party Central Committee." He then turned and went into the house.

Without patience the doors to the office of the director of industrial bureau are very difficult to pass. Li Haicheng had many times been stopped outside the doors. Many times, this bureau director pushed him away as if chasing away a beggar, saying: "Go away, we have work to do here, don't disturb us!" It never occurred to him that the problems concerning the iron plant were his work. One of the largest enterprises in the area was in a big mess as it was being closed down. Was this not the job of the person who was the director of the industrial bureau?

Li Haicheng was extremely angered. Once, he went to the bureau and shouted in front of a few leaders of the bureau: "Let me ask you, are there any uncorrupt officials around here? If there are, let's discuss the matter; if not, that's that."

Of course such an act was useless. Because some organizations were so unfeeling they could be penetrated with neither drill nor chisel.

#### IV. Fight A Protracted War

"I don't like to talk about this experience of pressing charges," said Li Haicheng. "Just think; what became of some of our organizations! How could we carry on without reforming this 'bureaucratic' way of doing things? How could our party maintain a blood and flesh relationship with the masses?" This exclamation coming from the bottom of Li Haicheng's heart strongly affected many and made them aware of a Communist Party member's deep sorrow and uneasiness about the unjust way with which some people conduct public affairs.

Li Haicheng plunged into great distress. How dangerous it is to "leave it unconcerned." It can dull a person's senses and make him numb all over. When it wears you out completely, that is the end of it.

Amidst the distress, Li Haicheng considered a series of questions: Where on earth is the resistance? Why doesn't the secretary of local party committee in charge of industry come out and inquire about the affair? What are the standards of right and wrong which must be upheld by the Communist Party members, especially

those who are in the position to lead? Should not there be a minimum principle governing the relationship between public and private, between related and unrelated, and between truth and false. Why are so many people against pressing charges without understanding the nature of the charge and regardless of crooked or straight, and try to protect those who do wrong and evil and are very good at bragging and flattering? If this were kept on, would it not become just as the old saying described: "flattery advances and loyalty retreats"?

No, Li Haicheng would never retreat! After thinking hard, he was not angry nor was he uneasy any more. He decided to fight a protracted war. The decision required extreme determination and courage. It revealed the unstoppable and irrepressible fearless disposition of an ordinary Communist Party member. What gave him such great spiritual strength? Li Haicheng said: "It is the faith in our Communist Party and its undertakings. I deeply believe that the policies implemented since the Third Plenary Session of the party Central Committee was held were all for the benefit of the vast majority of the masses. No matter how big some people's hand may be, it cannot block the sunlight of the party after all."

Li Haicheng took action. He began to call the situation to the attention of the provincial party committee, then to the party Central Committee. At the same time, he carried investigation and research one step further. He had to do something of substance; he had to do his part. He deeply felt that he was not struggling alone. There were a vast majority of the party members and the masses behind him. Their encouragement and support became the strong backing force for Li Haicheng to carry on a protracted war.

The rest of the story the readers are already familiar with. Internal publication of RENMIN RIBAO published Li Haicheng's letter. The leading comrades of the party Central Committee approved it and the Hebei Provincial Party Committee and the Party Central Discipline Committee dispatched investigative groups. Li Haicheng was one of the members of the investigative group organized by the local party committee. After investigating over a period of 3 months, the results of the investigation and the situations of disposition will be published shortly. Li Haicheng was victorious at long last and righteousness could stretch itself out.

One leading comrade who positively supported this investigation has said: "If we have more of the likes of Li Haicheng, the leaders may make fewer mistakes." He is right. We can continue to make progress by summarizing the experience and the lesson. One thing that makes us happy is the fact that there are more comrades of the Li Haicheng type appearing among the ranks of our party who possess steadfast faith toward the party and will stubbornly keep on struggling. This is our hope for even greater success in our undertakings in the future!

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CSO: 4006/342



## CONSTRUCTION

### BRIEFS

**BUILDING MATERIALS CONFERENCE**—Nanjing, 8 Jun (XINHUA)—Recently the Ministry of Building Materials held a national conference in Wujin County, Jiangsu, to exchange experience in providing more and better building materials for the 800 million peasants for building houses. Attending the conference were responsible persons and cadres of the building materials bureaus of 22 provinces, municipalities and autonomous regions and of the related ministries and commissions under the State Council. The conference called for popularizing the use of prefabricated cement parts for rural housing construction in order to save lumber and funds. It also noted that although rural enterprises throughout China annually produce more than 100 billion pieces of bricks, most occupy large areas of land, including farmland, and consume too much coal. [OW101331 Beijing XINHUA Domestic Service in Chinese 0246 GMT 8 Jun 81]

**DESIGN COMPANY FOR SHENZHEN**—Guangzhou, 31 May (XINHUA)—A construction design company has been formed in the Shenzhen special economic zone by nine design institutes and the Shenzhen municipal designing company, according to provincial authorities. The nine institutes are under the first and seventh ministries of the machine-building industry and the Ministry of the Metallurgical Industry. The company has already done blueprints for 19 buildings and other projects since its establishment in February. The company also makes construction feasibility reports for both domestic and overseas enterprises and provides consultant service on construction designs. [Text] [Beijing XINHUA in English 0210 GMT 31 May 81 OW]

CSO: 4020/206

## FOREIGN TRADE

### SHANGHAI SUPPLY OF EXPORT GOODS INCREASING

Beijing RENMIN RIBAO in Chinese 28 Apr 81 p 2

[Article: "Shanghai Supply of Export Goods Continues to Increase"]

[Text] Correspondents Ji Honggeng and Zhou Jianying report: Flexibility of work initiative and good coordination between industry and commerce have created continuing increases in the supply of export goods at the port of Shanghai, and export commerce is developing rapidly. In the first quarter of 1981, purchases of export goods for the whole city showed an 8 percent or more increase over the same period last year.

Shanghai has long-term dealings with more than 17,000 firms in 165 nations and regions, and has established commission sales and sole agency relationships in more than 70 nations and areas. The port of Shanghai has undertaken the heavy dual responsibility of organizing the supply of goods in the city itself and the export of goods shipped in from other provinces.

For the past 1-2 years, the supply of goods has been slightly inadequate to meet the requirements of the export plan. Besides strengthening relationships with fraternal provinces to increase the allotment of a supply of goods, the port of Shanghai has also, according to the principle of combining export of goods with available foreign markets and the potential for domestic production, has fully developed the employment of large towns along the seacoast to carry out "cultivation of exports through imports" (that is, using imported raw materials to make export goods), to solve the problem of insufficient supply of export goods by supporting the development of production. In the past, during the first half of each year and particularly during the first quarter, there is never sufficient supply, according to plan allotments, of raw materials for fine and rough woven woolen fabrics, voids developed in the factory productive capacities. Using a special item of foreign exchange, the Shanghai foreign trade department organized a timely import of wool to supplement the production void, guarantee export production under the plan, and increase amounts of fine and coarse woolen cloth purchased for export outside the plan. There was an additional purchase of 1 million meters last year, which brought in an additional 5 million U.S. dollars in foreign exchange, bringing the purchase and export of woolen cloth to their highest levels in history. According to calculations, for each U.S. \$1 worth of raw materials imported by Shanghai, processing creates a supply of goods for export worth, on average, an additional 7 yuan Renminbi or more. Last year, through "cultivation of exports through imports," besides the completion of the export plan by Shanghai factories, there was an additional production of goods suitable for export in the amount of almost 600 million yuan.

There are some short-route export products for which there is demand on the international market but for which the productive capacity of some Shanghai plants has already reached a saturation point because of limitations of equipment and other conditions. The Shanghai foreign trade departments worked jointly with the productive departments in requesting short-term foreign exchange credits and Renminbi credits from the state, and on the principles of small investment, fast turnover, great benefit, and little or no construction, has carried out 358 projects for the acquisition or renewal of various kinds of machinery over the past few years. When all have been put into production, they can increase purchases of goods for export by about 1.5 billion yuan. Of the 26 items carried out in 1980, three showed an effect that same year. For example, the Shanghai Woolen Mill No 17 used its credit to import some advanced equipment and turned the old looms that were displaced over to an enterprise in Nanhui County. The new equipment increased production the same year by 100,000 meters of fine-woven woolen cloth for export, increasing receipts of foreign exchange by U.S.\$400,000.

The Shanghai foreign trade departments also developed the potential supply of export goods in neighboring counties and neighborhood factories. They have already established 259 export production points in the city and in the neighboring counties. Chongming Island is surrounded by water on all four sides and is crisscrossed by rivers, so there is a great deal of water surface, a great deal of grassland, a great deal of beach, and a large labor force, and they were organized to develop ten-odd export items, including white goats, mink, and eel fry. Besides providing writing brushes and hides for export, white goats also supply large amounts of goat meat for local residents. The angora rabbits of Nanhui, the Xianggu mushrooms of Jiading, Chuansha, and Shanghai counties, etc., have also shown some recent development. Some export requirements for light textile products, handicraft products, bakelite articles, etc., cannot be undertaken by the old plants in the municipal area, or cannot easily be undertaken by large plants because of small quantities, multiple changes in specifications, or varying packaging requirements, and these have all been turned over to factories in the neighboring counties and communes and neighborhood factories. People call this "supplementing the large with the small", and it is a "small sampan," with fast turnabout, flexible and diverse management, and a strong suitability to the international market. A great many of the acrylic shirts, woolen shirts, embroidered undershirts, etc., that have recently appeared on the Shanghai market and having new patterns, good color and lustre, and a good appearance, were products of these plants, which marketed a part of their product domestically.

As a result of this increase in the supply of goods for export, export trade by the port of Shanghai has increased by an average 20 percent or more annually since 1977.

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CSO: 4006/318



## FOREIGN TRADE

### SHANGHAI SHIPBUILDING INDUSTRY EXPANDING

Shanghai WEN HUI BAO in Chinese 2 May 81 p 1

[Article: "Contracts to Build 38 Ships for Export Undertaken Since Last Year"]

[Text] In the readjustment of the national economy, the Shanghai shipbuilding industry made a timely change in its product structure and strenuously developed an export ship industry, already taking orders from foreign commercial firms for 38 ships totaling more than 440,000 tons, since last year, for a possible remittance of more than US\$300 million. This year the industry will complete six ships for export, with work to begin on an additional 23 ships within the year.

Since the construction of our country's first 10,000-ton "East Wind" in the early 1960's, the Shanghai shipbuilding industry has constructed 76 10,000-ton boats, of which two were exported, 48 were put into service in our overseas fleet, and 26 have undertaken coastal transport tasks. This has resulted in the accumulation of a certain amount of shipbuilding experience and the training of a force of technical workers. In the competition of the international ship market, the high standards, strict requirements, and efforts to build a thoroughly good product have been noticed. Since last year the Jiangnan Shipyard has built four 50-ton derrick ships for Romania, based on the "ZC experimental ship standards" of our ship survey bureau, and this year they will build a group of 27,000-ton freighters based entirely on the specifications of the British Lloyd's ship ratings society for foreign firms. To break through "the six key technologies," workers throughout the plant suggested ways and means and were determined to create a thoroughly good export product. Workers in the hull workshop personally conducted bake welding of samples [3599 3549 6107 2876] in accordance with the requirements of foreign technology, and afterwards conducted physical and chemical testing of the sample, with the result that they thoroughly satisfied the technical preparations prior to beginning work on a 27,000-ton freighter, is accelerating the compilation of technical data, paying attention to maintenance of key processing machinery in all the various shops, and implementing technical measures.

To meet requirements for export, the Shanghai shipbuilding industry has also turned its attention to internal reorganization of the plants, strengthening management, development of productive potential, and earnest training of personnel. The Shanghai shipyard has carried out a measured reform of plant organization. From one point it has gradually been divided into "three plants and two lines" (Two (repair) shipyards, one casting and forge shop, one shipbuilding production line, and one engine production line), and has implemented specialized production. Following these reforms, their

ship repair capabilities were complete and their shipbuilding production setup had been readjusted and laid out in accordance with technological processes. This year, 70 percent or more of this plant's shipbuilding will be for export.

The Shanghai shipbuilding industry, in expanding its ship export business, has received the active support of the city's metallurgical, electrical, light industry, chemical, instrument, and other industries. The sets of domestic electrical equipment on exported ships is gradually receiving approval of international ship-rating societies; the Shanghai First Steel Plant, the Shanghai Heavy Machinery Plant, the welding rod and welding flux units subordinate to the Shanghai Standard Parts Company all have strived to improve the performance of their products and have invited representatives of the British Lloyds Ship Rating Society to observe, thus receiving confirmation in accordance with the requirements of international standards.

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CSO: 4006/318

## TRANSPORTATION

### PRC COMPLETES SHIPPING LOCKS PROJECT ON YANGTZE RIVER

OW051524 Beijing XINHUA in English 1503 GMT 5 Jun 81

[Text] Gezhouba, 5 Jun (XINHUA)—China's two biggest shipping locks, just completed at Gezhouba dam site on the middle reaches of the Yangtze river, are now almost ready for trial operation.

This was announced today by Chen Gangyi, vice minister of water conservancy, at the construction site in Hubei Province, Central China.

Meanwhile, installation of the first power generating unit, another major aspect of the Gezhouba project, is nearing completion. With a capacity of 170,000 kw, the unit is expected to go into operation in the coming weeks.

The two shipping locks are automatically controlled. The smaller of the two is capable of handling ships up to 3,000 tons draught, and the larger, a formation of ships with a total carrying capacity of 10,000 tons. Each lock has two pairs of steel gates. The biggest two of the steel gates are larger than a basketball court, weighing 600 tons each.

Both the two locks and a 6.8-kilometer navigation channel built for them will be soon handed over to the Yangtze river navigation administration for trial operation.

The Gezhouba project, China's biggest ever hydroengineering project, is designed for power generation and navigation. It will have a total generating capacity of 2.7 million kw and there will be three shipping locks.

So far, nearly two-thirds of the 2,561-meter dam has been mainly completed. Work is progressing on the rest, sheltered by a temporary coffer dam.

In preparation for navigation and generation, the gates of a spillway completed earlier were lowered on May 23 to detain water. Since then the water level behind the dam on its upstream side has risen by 14 meters, to 10 meters below the top of the dam. The dam has so far stood up to the test of the water pressure.

The Gezhouba project will raise the water level of the Yangtze river channel for some 200 kilometers upstream and facilitate navigation along this section, in the past a dangerous stretch because of its narrow bed and submerged rocks.



The channel of the Yangtze river in Sichuan and Hubei provinces, as far as Wuhan, is navigable only for ships of up to 3,000 tons, and cargo is often transported by a row of barges pushed by a tug boat. The design of the locks has taken into consideration the present capacity of the river channel and its future expansion.

CS0: 4020/206

## **TRANSPORTATION**

### **BRIEFS**

**NEW DOMESTIC FLIGHTS--Nanchang, 6 Jun (XINHUA)--**The Jiangxi Provincial Bureau of Civil Aviation on 5 June inaugurated two new domestic flights--one connecting Nanchang, Jiujiang and Shanghai, and the other linking Nanchang, Jiujiang and Guangzhou. The new weekly flights were inaugurated to promote tourism. [OWD71050 Beijing XINHUA Domestic Service in Chinese 1732 GMT 6 Jun 81]

CSO: 4006/359

## GENERAL

### BRIEFS

**BETTER DRINKING WATER DRIVE**—Beijing, 7 Jun (XINHUA)—China is participating in the activities of the 1981-90 "international decade of drinking water supply and environmental hygiene" decided upon by the 35th UN General Assembly. The campaign aims at achieving the global goal of "safe drinking water and sanitation for everyone" by 1990. Recently the State Council approved and circulated a report of the Central Patriotic Health Campaign Commission and the Public Health Ministry on these activities. The report urged local governments to make appropriate and overall plans to markedly change the Chinese people's drinking water and health conditions and contribute the Chinese people's Share to achieving the goal set for the "international decade of drinking water supply and environmental hygiene." [OW101331 Beijing XINHUA Domestic Service in Chinese 0120 GMT 7 Jun 81]

CSO: 4006/359



## PUBLICATIONS

### PRC TELEPHONE DIRECTORY TO GO ON SALE

OW130826 Beijing XINHUA in English 0810 GMT 13 Jun 81

[Text] Beijing, 13 Jun (XINHUA)—An 800-page Chinese-English telephone directory of more than 20,000 frequently-used telephone numbers in China will be soon on sale both in Hong Kong and on the Mainland.

The 1981 "China Telephone Directory," the first such comprehensive directory ever published in China, was compiled by an editorial office under the Chinese Ministry of Posts and Telecommunications.

It took one year to prepare, according to staff in the editorial office. Although there are three unofficial China phone books out in Hong Kong, they said, this is the most complete and reliable one.

The staff expects that the directory will be especially welcomed by foreigners working in China or doing business with China.

The book will be available later this month at posts and telecommunications departments in big and medium-sized cities. The Hong Kong office of the China Youth Travel Service will be the agent for sales of the directory abroad.

The directory provides telephone numbers for about 40 big and medium-sized cities. It does not include personal telephones, but covers more than 20,000 government departments, political parties and organizations, scientific research institutions, schools, colleges and universities, press and publishing organizations, medical and public health establishments, tourism services, banks and an insurance company, public service organizations, import and export corporations and industrial and commercial enterprises as well as foreign embassies, press offices and economic and trade agencies in China.

CSO: 4020/206

## NATIONAL POLICY AND ISSUES

### HONG KONG PAPER DISCUSSES NEW ROAD FOR CHINA'S ECONOMY

HK110823 Hong Kong WEN WEI PO in Chinese 7 Jun 81 p 3

[Special feature by Pai Yun-pi [4101 0061 4310]: "New Road for China's Economy" (Part I)]

[Text] To readjust and reform China's economy, we must bear in mind two things. First, we must proceed from China's national condition or seek truth from facts. We cannot indiscriminately copy the experience of foreign countries and work subjectively. Otherwise, we will suffer. We have suffered in the past. Since the smashing of the gang of four, we have suffered again. Some people have shirked their responsibility by saying that a tuition fee must be paid. However, we have paid too many tuition fees in the last 30 years and the price has been too high. The country has become impoverished and we cannot afford this any longer. Just as Zhao Ziyang has said: We should "awaken to the facts." The other thing is, we must take our own road, or, take a new road. How do we take this new road? What are its contents and methods? This is a question people are interested in at present.

#### Where Does Zhao Ziyang Get His Capability?

Zhao Ziyang is a leader with foresight and capability. Where does he get his foresight and capability? As mentioned before, by proceeding from the reality of China's national condition and taking our own road. He has obtained practical experience in Sichuan. Some people are saying that the experience of Sichuan may not necessarily be suitable for the whole country. We must not belittle the experience of Sichuan. It has a population of 100 million and can be considered a sizeable country in comparison with foreign countries. The experiences and effective measures carried out in this major province are most likely also useful for the other provinces. Of course, there are bound to be exceptions. For example, special regions in the south and outlying minority nationalities regions are exceptions to the rule. Also, the different regions should also proceed from their own actual conditions and cannot copy indiscriminately from the methods of Sichuan. This is called proceeding from reality.

#### Economic Experts Receive Special Attention

Zhao Ziyang also gives full play to the role of economic experts. In this readjustment and reform, special attention is given to the economic experts in China. They have engaged in practical work, made sightseeing tours and visits, conducted investigation and study, expressed opinions and offered suggestions. As a result of combining

practical work with theoretical study, many proposals and methods for readjustment and reform have been produced. In the past, the emphasis was on nonprofessionals leading the professionals and experts were rejected. Consequently, we practiced a "leftist" line and used this line to elbow aside and attack those cadres and experts with different views. Zhao Ziyang however respects science and the experts. This also means he respects reality and proceeds from reality.

During most of the time in the last 30 years, because of the influence of "leftist" mistakes, our economic work has taken the road of heavy investment, high consumption and little increase in social wealth. In the initial period of the readjustment, because of the need to break away from the fetters of the "left" and smash "leftist" command and criticism, a new atmosphere has appeared in economic work. The economy has been invigorated and a fine situation hitherto unknown has appeared. Naturally, there is a shortcoming, and that is, there is a bit of confusion in work. This is because we have been accustomed for a long time to centralization and we have no experience in carrying out work. Faced with this kind of condition, should we turn back or should we continue with our advance?

#### A Bit of Confusion in Work

There is a bit of confusion in work. Naturally, confusion causes anxiety. For example, production of some raw materials for light industry, such as cotton and tobacco, has not gone up. The textile mills and tobacco factories in such major cities as Shanghai are not operating at full capacity. However, the factories in villages and towns not only waste raw materials but their products are also inferior in quality. How can we solve this contradiction? Should we follow the old road or should we blaze a new path? The way of the reformists is to use the profit-sharing method. This has not only stimulated the enthusiasm of the raw material producing areas, but has also enabled the major factories to operate at full capacity and turn out good quality products. If we follow the old road, restrict this and that and only allow state-run factories but not others to make a profit, this will mean putting everything under rigid control and there will be no way to carry out work.

If we cannot take the old road, then where is the new road? The new road is in improving economic results. This may be summed up by the following words:

Stabilize the economy and readjust the structure.  
Rely on the old factories and tap potentialities.  
Reform the system and improve results.

#### The Five Steps at Present

This is the new road for developing our economy. Many people hold that it will not be easy to find this new road. Because it conforms with our national condition, there will be a great hope for the future.

We must have a major program for taking this new road and carry this out step by step. At present this means we must, under the logical premise of guaranteeing the state plan, put the emphasis on grasping the following work:



1. We must energetically develop the production of consumer goods based on the needs of domestic and foreign markets and the livelihood needs of urban and rural people. Focusing on the brandname products of key cities, we must smash departmental and regional boundaries and carry out industrial reorganization and enterprise integration.
2. We must place the departments of heavy industry in the service of people's livelihood, technical transformation of the national economy and national defense construction.
3. We must fully rely on the existing enterprises to carry out technical transformation in a planned manner on the basis of reorganization and integration.
4. We must conscientiously consolidate the enterprises, improve administration and management, raise quality, lower consumption and pay attention to economic results.
5. While strengthening the energy industry and communications and transportation, we must at the same time properly tap potentialities and use energy sparingly in production.

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